

IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the “**Prospectus**”) and you are advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the attached Prospectus you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Issuer, CBM or the Joint Lead Managers (each as defined below) as a result of such access. The attached Prospectus is intended for the addressee only.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE ATTACHED PROSPECTUS (THE “NOTES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT); DIRECTLY OR INDIRECTLY, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES.

Confirmation of your Representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the Notes, investors must comply with the following provisions. You have been sent the attached Prospectus on the basis that you have confirmed to Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, HSBC Bank plc, ING Bank N.V., London Branch, J.P. Morgan Securities plc, Raiffeisen Bank International AG, “**REGION Broker Company**” LLC, Société Générale and Unicredit Bank AG (the “**Joint Lead Managers**”), being the senders of the attached Prospectus, that:

- (a) you (and each investor that you represent) are either: (A) not a U.S. person (as defined in Regulation S under the Securities Act), are not investing in the Rule 144A Note and the electronic mail address that you have given to us and to which this electronic transmission has been sent is not located in the United States; or (B) a “qualified institutional buyer” (as defined in Rule 144A under the Securities Act) that is also a “qualified purchaser” (within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940);
- (b) you consent to delivery of the attached Prospectus by electronic transmission;
- (c) you are a prospective purchaser of the Notes and you are a “relevant person” (as defined below) if in the United Kingdom;
- (d) you will not transmit the attached Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of a Joint Lead Manager; and

- (e) you acknowledge that the attached Prospectus does not constitute an offer of or an invitation to subscribe for or purchase any of the Notes.

By accepting this electronic transmission and accessing the attached Prospectus, you shall be deemed to have made the above representation and that you consent to delivery of such Prospectus by electronic transmission.

This document is only addressed to and directed at persons in member states of the European Economic Area that have implemented the Directive 2003/71/EC, as amended (the “**Prospective Directive**”) who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (“**Qualified Investors**”). In addition, the Prospectus is directed solely at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the “**Order**”), (iii) high net worth entities, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i)-(iv) above being “**relevant persons**”). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

The attached Prospectus or information contained therein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in the attached Prospectus is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Article 51.2 of Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Russian QIs**”), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for “placement” or “circulation” in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

The attached Prospectus has been delivered to you on the basis that you are a person into whose possession the attached Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The attached Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of CBOM Finance p.l.c. (the “**Issuer**”), CREDIT BANK OF MOSCOW (public joint-stock company) (“**CBM**”) or the Joint Lead Managers, or any person who controls them, or any director, officer, employee or agent of any of them, or their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the attached Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are reminded that no representation or warranty, expressed or implied, is made or given by or on behalf of the Joint Lead Managers, nor any person who controls the Joint Lead Managers or any director, officer, employee or agent of any of them, or their respective affiliates as to the accuracy, completeness or fairness of the information or opinions contained in the attached Prospectus and such persons do not accept responsibility or liability for any such information or opinions.

Neither this electronic transmission nor the attached Prospectus constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful. If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer, and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.



**U.S.\$600,000,000 7.50% Loan Participation Notes due 2027
to be issued by, but with limited recourse to,
CBOM Finance p.l.c.
for the sole purpose of financing a subordinated loan to
CREDIT BANK OF MOSCOW (public joint-stock company)**

Issue Price: 100%

CBOM Finance p.l.c., a public company with limited liability incorporated under the laws of Ireland, having its registered office at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland, and registered under number 425241 (the **“Issuer”**), is issuing an aggregate principal amount of U.S.\$600,000,000 7.50% Loan Participation Notes due 2027 (the **“Notes”**) to be issued by, but with limited recourse to the Issuer for the sole purpose of financing a U.S.\$600,000,000 subordinated loan (the **“Subordinated Loan”**) to CREDIT BANK OF MOSCOW (public joint-stock company) (the **“Borrower”** or **“CBM”**) on the terms of a subordinated loan agreement dated 3 April 2017 (the **“Subordinated Loan Agreement”**) between the Issuer and CBM. The Notes are constituted by, are subject to, and have the benefit of, a trust deed to be dated on or about 5 April 2017 (the **“Trust Deed”**) between the Issuer and Citibank, N.A., London Branch as trustee (the **“Trustee”**) for the benefit of the Noteholders (as defined in the *“Terms and Conditions of the Notes”*). In the Trust Deed, the Issuer has charged, in favour of the Trustee for itself and for the benefit of the Noteholders, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Subordinated Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer has assigned absolutely certain of its administrative rights under the Subordinated Loan Agreement to the Trustee.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) by, or for the account of, the Issuer pursuant to the Subordinated Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on CBM’s covenant to pay under the Subordinated Loan Agreement and on the credit and financial standing of CBM in respect of the payment obligations of the Issuer under the Notes.

Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Subordinated Loan Agreement or have direct recourse to CBM except through action by the Trustee under any of the Security Interests (as defined in the *“Terms and Conditions of the Notes”*).

On each interest payment date, being 5 April and 5 October (each, an **“Interest Payment Date”**) in each year, commencing on 5 October 2017 and ending on 5 October 2027, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 7.50% per annum from (and including) 5 April 2017 (the **“Closing Date”**) to (but excluding) the Early Repayment Date (as defined in the Subordinated Loan Agreement) and, provided that the Subordinated Loan is not prepaid on or before such date, from (and including) the Early Repayment Date to (but excluding) 5 October 2027 (the **“Repayment Date”**) at the Reset Rate of Interest (as defined in the Subordinated Loan Agreement).

There is currently no public market for the Notes. The Prospectus has been approved by the Central Bank of Ireland (the **“Central Bank”**) as competent authority under Directive 2003/71/EC, as amended (the **“Prospectus Directive”**). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union (**“EU”**) law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc (the **“Irish Stock Exchange”**) for the Notes to be admitted to the official list (the **“Official List”**) and trading on its regulated market (the **“Main Securities Market”**). References in this Prospectus to the Notes being listed (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial institutions.

The Notes will be in registered form. The Notes may be held and transferred, and will be offered and sold, in the principal amount of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, in each case without interest coupons attached. The Notes that are offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (**“Regulation S”**) under the United States Securities Act of 1933 (the **“Securities Act”**) will be represented by interests in a

global registered certificate (the “**Regulation S Global Note**”) deposited with a common depository (the “**Common Depository**”) for, and registered in the name of, a nominee of, Euroclear Bank SA/NV (“**Euroclear**”) or Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”) on or about the Closing Date. The Notes which are offered and sold in the United States to qualified institutional buyers (“**QIBs**”), as defined in Rule 144A under the Securities Act (“**Rule 144A**”), that are also qualified purchasers (“**QPs**”), as defined in Section 2(a)(51) of the United States Investment Company Act of 1940 (the “**Investment Company Act**”), in reliance on the exemption from registration provided by Rule 144A will be represented by interests in a global registered certificate (the “**Rule 144A Global Note**”) and, together with the Regulation S Global Note, the “**Global Notes**”) deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company (“**DTC**”) on or about the Closing Date. Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their respective participants. Individual notes in definitive form (the “**Definitive Note Certificates**”) evidencing holdings of Notes will only be available in certain limited circumstances. See “*Summary of the Provisions Relating to the Notes in Global Form*”.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 9 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

IF A WRITE DOWN EVENT (AS DEFINED IN THE SUBORDINATED LOAN AGREEMENT) OCCURS, THE PRINCIPAL AMOUNT OF THE NOTES AND/OR INTEREST AMOUNT THEN DUE IN RESPECT OF THE NOTES (AS APPLICABLE) WILL BE SUBJECT TO WRITE DOWN AND CANCELLATION IN AN AMOUNT EQUAL TO THE PRINCIPAL AMOUNT OF THE SUBORDINATED LOAN AND/OR INTEREST AMOUNT THEN DUE IN RESPECT OF THE SUBORDINATED LOAN SO WRITTEN DOWN AND CANCELLED (AS APPLICABLE) IN ACCORDANCE WITH CLAUSE 8 OF THE SUBORDINATED LOAN AGREEMENT. ANY SUCH WRITE DOWN WILL RESULT IN NOTEHOLDERS LOSING THE RELEVANT PRINCIPAL AND/OR INTEREST AMOUNT OF THE NOTES SO WRITTEN DOWN. ACCORDINGLY, NOTEHOLDERS SHOULD BE AWARE THAT THEY MAY LOSE THEIR ENTIRE INVESTMENT IN THE NOTES. IN THE EVENT THAT THE ENTIRE PRINCIPAL AMOUNT OF THE NOTES IS WRITTEN DOWN, THE NOTES WILL BE CANCELLED. PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE RISK FACTOR IN THIS PROSPECTUS ENTITLED “THE SUBORDINATED LOAN AND NOTES MAY BE SUBJECT TO WRITE DOWN MEASURES” ON PAGE 41.

THE NOTES AND THE SUBORDINATED LOAN IN RESPECT THEREOF (TOGETHER, THE “SECURITIES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, SUBJECT TO CERTAIN EXEMPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S). THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QIBs THAT ARE ALSO QPs IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE “RULE 144A NOTES”) AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE “REGULATION S NOTES”). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND DISTRIBUTION OF THIS PROSPECTUS, SEE “*SUBSCRIPTION AND SALE*” AND “*TRANSFER RESTRICTIONS*”.

The Notes are rated BB- by Fitch Ratings Ltd (“**Fitch**”). Fitch is established in the European Community and registered under Regulation (EC) No. 1060/2009 on credit rating agencies (the “**CRA Regulation**”). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority’s website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>). A rating is a not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The net proceeds from the offering of the Notes will be used by CBM to finance the purchase of the Existing Notes (as defined herein) pursuant to the Tender Offer (as defined herein) launched by the Issuer on 20 March 2017, pursuant to a tender offer memorandum of the same date, expected to be settled on or about 3 April 2017.

Joint Lead Managers

CITIGROUP

CREDIT SUISSE

HSBC

ING

J.P. MORGAN

**RAIFFEISEN BANK
INTERNATIONAL**

REGION Broker Company

**SOCIÉTÉ GÉNÉRALE
CORPORATE & INVESTMENT BANKING**

UNICREDIT BANK

The date of this Prospectus is 3 April 2017

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the “**Prospectus**”) comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the “**Prospectus Regulations**”) and has been prepared for the purpose of giving information with regard to the Issuer, CBM, the Notes and the Subordinated Loan which, according to the particular nature of the Issuer, CBM, the Notes and the Subordinated Loan, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and CBM. Each of the Issuer and CBM accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and CBM (each of which having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

CBM, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to the Issuer, CBM, the Notes and the Subordinated Loan that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to the Issuer and CBM, are in every material respect true and accurate and are not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to CBM, are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts with respect to the Issuer, CBM, the Notes or the Subordinated Loan the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by CBM to ascertain such facts and to verify the accuracy of all such information and statements. CBM accepts responsibility accordingly.

No representation or warranty, express or implied, is made by the Joint Lead Managers named under “*Subscription and Sale*” (the “**Joint Lead Managers**”), the Trustee or any of their respective affiliates or any person acting on their behalf as to the accuracy or completeness of the information contained in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on any Joint Lead Manager or the Trustee or any person affiliated with any Joint Lead Manager or the Trustee, in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of CBM and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. This Prospectus may only be used for the purpose for which it has been published.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made, or purported to be made, by the Joint Lead Managers or on their behalf in connection with the Issuer, CBM or the issue and offering of the Notes. The Joint Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Prospectus or any such statement.

CBM and the Issuer have derived substantially all of the information contained in this Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available information from official data published by Russian government agencies, such as the Central Bank of Russia (“**CBR**”), the Federal State Statistics Service of the Russian Federation (“**Rosstat**”) and from other publicly available sources.

Each of CBM and the Issuer accepts responsibility that such information has been accurately reproduced and, as far as CBM and the Issuer are aware and are able to ascertain, no facts have been omitted which would render the information inaccurate or misleading. However, CBM and the Issuer have relied on the accuracy of information concerning the Russian banking market and its competitors

without carrying out an independent verification.

Some of the official data published by Russian federal, regional and local government agencies may not be complete or researched to the standard of Western countries. Some official data released by the Russian government may be inaccurate. Official statistics, including those produced by the CBR, may also be produced to a different standard than those used in Western countries. In addition, the data released by the CBR related to market shares referred to in this Prospectus is based on Russian Accounting Standards (“**RAS**”), and market shares with respect to loans and deposits have been determined by gross value. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to the potential incompleteness or inaccuracy of available official and public information. See “*Risk Factors – Risks Relating to the Russian Federation – Other Risks – Publicly available data may be unreliable*”.

CBM’s legal name is CREDIT BANK OF MOSCOW (public joint-stock company) and the address of its registered office and its head office is 2 (Building 1) Lukov Pereulok, Moscow 107045, the Russian Federation. The telephone number of the registered office and head office is +7 (495) 797-42-22. CBM is regulated by the CBR and holds general banking licence No. 1978 issued by the CBR on 20 January 2000. The Issuer’s legal name is CBOM Finance p.l.c. registered as a public company with limited liability under the Companies Act 1963-2005 of Ireland under number 425241, and its registered address is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland. The Issuer may be reached by telephone at +353 1 905 8020.

The Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, CBM or the Joint Lead Managers to subscribe or purchase any Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus is only being distributed to and is only directed at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), (iii) high net worth entities, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i)-(iv) above being “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Persons into whose possession this Prospectus comes are required by the Issuer, CBM and the Joint Lead Managers to inform themselves about and to observe any such restrictions. Any consents or approvals that are needed in order to purchase any Notes must be obtained by the purchaser of the Notes. CBM, the Issuer and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. None of the Issuer, CBM, the Trustee or the Joint Lead Managers or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters. The Securities have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to QIBs that are also QPs in reliance on the exemption from registration under the Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption

from the provision of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The information provided in this Prospectus is not an offer or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to, or for the benefit of, any Russian person or entity. This Prospectus does not constitute an advertisement or offering of any securities in the Russian Federation. The Notes have not been and will not be registered in the Russian Federation or admitted to placement or public circulation in the Russian Federation. The information set forth in this Prospectus is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Federal Law No. 39-FZ “On the Securities Market”, dated 22 April 1996, as amended (the “**Russian QIs**”). This Prospectus must not be distributed into or circulated in the Russian Federation to any persons who are not Russian QIs unless and to the extent they are otherwise allowed to access such information. No person should at any time carry out any activities in breach of the restrictions set out in “*Subscription and Sale – Russian Federation*”.

None of the Issuer or CBM intends to provide any post-issuance transaction information regarding the Notes or the performance of the Subordinated Loan. No person is authorised to provide any information or to make any representation not contained in this Prospectus, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, CBM, the Trustee or the Joint Lead Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of CBM’s website, in addition to any other websites referred to in this Prospectus, as at the date hereof or as at any other date, do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

This Prospectus has been filed with and approved by the Central Bank as required by the Prospectus Regulations. The Prospectus, as approved by the Central Bank, will be filed with the Irish Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

In connection with the issue of the Notes, Société Générale (the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the stabilising manager) will undertake stabilisation action. Any stabilisation action may begin at any time after adequate public disclosure of the final terms of the offer of the Notes and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the closing date of the Notes and 60 days after the date of the allotment of the Notes.

NOTICE TO U.S. INVESTORS

EACH PROSPECTIVE PURCHASER OF RULE 144A NOTES OR BENEFICIAL INTERESTS THEREIN, BY ACCEPTING DELIVERY OF THIS PROSPECTUS, SHALL BE DEEMED TO HAVE ACKNOWLEDGED AND AGREED THAT SUCH PROSPECTUS IS PERSONAL TO IT AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE SUCH NOTES OTHER THAN PURSUANT TO RULE 144A. DISTRIBUTION OF THIS PROSPECTUS, OR DISCLOSURE OF ANY OF ITS CONTENTS TO ANY PERSON OTHER THAN SUCH OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE IT WITH RESPECT THERETO IS UNAUTHORISED AND ANY DISCLOSURE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF THE ISSUER, IS PROHIBITED. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EXCEPT AS REASONABLY NECESSARY TO COMPLY WITH APPLICABLE SECURITIES LAWS, INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE INVESTORS) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE OF THE OFFERING AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTORS RELATING TO SUCH U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE (AS SUCH TERMS ARE DEFINED FOR PURPOSES OF SECTIONS 6011, 6111 AND 6112 OF THE U.S. INTERNAL REVENUE CODE AND THE TREASURY REGULATIONS PROMULGATED THEREUNDER).

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning CBM’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. CBM uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “are expected to”, “could”, “will”, “will continue”, “should”, “would be”, “seeks”, “approximately”, “estimates”, “predicts”, “projects”, “aims” or “anticipates”, and other similar expressions to identify forward-looking statements. These forward-looking statements are contained in “*Risk Factors*”, “*Business*” and other sections of this Prospectus. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or CBM’s results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements relate to, among other things:

- overall business conditions;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- economic and political conditions in Russia;
- the timing, impact and other uncertainties of future actions;
- inflation, interest rate fluctuations, foreign currency and exchange rate fluctuations and other capital market conditions in Russia;
- the condition and performance of the Russian economy, including the Russian banking sector;
- the effects of, and changes in, the policy of the federal government of Russia (the “**Russian Government**”) and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which CBM conducts its operations;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where CBM conducts its operations;
- CBM’s ability to maintain or increase market share for its products and services and control expenses;
- CBM’s ability to meet its funding obligations and develop and maintain additional sources of financing;
- CBM’s ability to continue to diversify its client base;
- the impact of the growth of CBM’s loan portfolio on its revenue potential and overall asset quality;
- CBM’s ability to comply with the CBR’s mandatory economic ratio requirements and continue to participate in the system of mandatory insurance of retail bank deposits in Russia;
- the future growth of CBM’s business;
- acquisitions or divestitures by CBM or in the business areas in which CBM conducts its

operations;

- technological changes; and
- CBM's ability to manage the risks associated with the aforementioned factors.

These forward-looking statements speak only as at the date of this Prospectus. Accordingly, but subject to the requirements of the Central Bank, CBM is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to CBM, or persons acting on CBM's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ADDITIONAL INFORMATION

Neither the Issuer, nor CBM is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”). For so long as neither the Issuer, nor CBM is a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or CBM will, upon request, furnish to each holder or beneficial owner of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

ENFORCEMENT OF FOREIGN JUDGMENTS

CBM is a public joint-stock company incorporated under the laws of the Russian Federation and most of its assets are located in the Russian Federation. In addition, as at the date of this Prospectus a substantial majority of CBM's directors and executive officers are residents of the Russian Federation. As a result, it may not be possible for Noteholders and/or the Trustee to effect service of process upon CBM or any such person outside the Russian Federation; enforce against any of them, in courts of jurisdictions other than the Russian Federation, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions; and/or enforce against any of them, in Russian courts, judgments obtained in jurisdictions other than the Russian Federation, including judgments obtained in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered, and (ii) a federal law of the Russian Federation provides for the recognition and enforcement of such foreign court judgments. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. Absent such federal law or a treaty, it may be required to initiate new proceedings in the Russian Federation in respect of a judgment already obtained abroad. Although the Russian courts have recognised and enforced a number of foreign court judgments (including the judgment of an English court), on the basis of a combination of the principle of reciprocity and, in the case of enforcement of an English court judgment, the existence of a number of bilateral and multilateral treaties to which both United Kingdom and the Russian Federation are parties, there is no assurance that this approach will be exercised in respect of other court judgments obtained in the United Kingdom. In addition, the enforcement of any such judgment (if any) may be significantly delayed due to the limited experience of Russian courts in the enforcement of foreign court judgments.

The Subordinated Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action brought by any party thereto to be settled by arbitration in accordance with the LCIA Arbitration Rules (the "**Rules**"). The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. However, it may be difficult to enforce arbitral awards in the Russian Federation due to, *inter alia*:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the inability of Russian courts to enforce such awards.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules and the application of English law to the Subordinated Loan Agreement may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies and credit organisations, in particular.

The Arbitration Procedural Code provides for the procedure for Russian courts to refuse to recognise and enforce any arbitral award. The Arbitration Procedural Code and other Russian procedural legislation could change; therefore, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, the requirement of international treaties may be met with resistance or a lack of understanding by a Russian court or other officials, thereby introducing delay and unpredictability into

the process of enforcement of any foreign judgment or any foreign arbitral award in Russia.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

CBM's financial information as at and for the years ended 31 December 2016, 2015 and 2014 set forth herein has, unless otherwise indicated, been extracted, without material adjustment, from CBM's audited consolidated financial statements for the years ended 31 December 2016 and 2015 (the "**2016 Annual Financial Statements**") and the "**2015 Annual Financial Statements**", respectively, and collectively, the "**Financial Statements**"), set forth on pages F-2 through F-81 of this Prospectus. The financial information as at and for the year ended 2014 has been derived from the comparative columns of the 2015 Annual Financial Statements. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board.

The Russian Rouble is the presentation currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in roubles.

The accounts used by CBM's management to plan, manage and monitor the performance of the business on a day-to-day basis are based on information prepared in accordance with RAS. In addition, CBM analyses financial information relating to its consolidated subsidiaries based on RAS.

The audited financial statements of the Issuer as at and for the years ended 31 December 2016 and 2015 together with the audit reports thereon, have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Prospectus. The financial statements of the Issuer as at and for the years ended 31 December 2016 and 2015 may be obtained from the website of the Irish Stock Exchange at [http://www.ise.ie/debt_documents/Searchable%20PDF%20of%20AC23930026.1\(23935300_1\)_c82d_efa2-f8ff-4c7f-8c74-3f96230ac593.PDF](http://www.ise.ie/debt_documents/Searchable%20PDF%20of%20AC23930026.1(23935300_1)_c82d_efa2-f8ff-4c7f-8c74-3f96230ac593.PDF) and <http://www.ise.ie/app/announcementDetails.aspx?ID=13000258>, respectively.

CBM's Independent Auditors

The Financial Statements included in the Prospectus have been audited by JSC KPMG ("**KPMG**"), as stated in their reports appearing herein. The address of KPMG is Naberezhnaya Tower Complex, Block C, 10 Presnenskaya Naberezhnaya, Moscow 123112, Russian Federation. KPMG is a member of the self-regulated organisation of auditors "Russian Union of auditors" (*Association*).

Certain Definitions and Currencies

In this Prospectus, all references to:

- "**CBR**" are to the Central Bank of Russia;
- "**CIS**" are to the Commonwealth of Independent States and its member states (excluding Russia) as at the date of this Prospectus, being Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- "**EBRD**" are to the European Bank for Reconstruction and Development;
- "**EU**" are to the European Union;
- "**FSFM**" are to the Russian Federal Service for Financial Markets or its predecessor;
- "**IFC**" are to the International Finance Corporation;
- "**Interest-Bearing Liabilities**" are to the sum of deposits by customers, debt securities

issued and deposits by credit and other financial institutions;

- “**Interest-Earning Assets**” are to the sum of loans to customers, deposits in credit and other financial institutions, available-for-sale securities and financial instruments at fair value through profit or loss;
- “**Ireland**” are to Ireland (exclusive of Northern Ireland);
- “**Member State**” are to a Member State of the European Economic Area;
- “**Moscow Area**” or “**Moscow region**” are to Moscow and Moscow Region as federal subjects of the Russian Federation combined.
- “**Russia**” and “**Russian**” pertain to the Russian Federation.

In this Prospectus, the following currency terms are used:

- “**RUB**”, “**Russian Roubles**”, “**Roubles**” or “**roubles**” means the lawful currency of the Russian Federation;
- “**U.S.\$**” or “**U.S. dollar**” means the lawful currency of the United States; and
- “**EUR**”, “**Euro**” “**euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

References in the Prospectus to “billions” are to thousands of millions.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Exchange Rate Information

This Prospectus contains conversions of certain amounts relating to particular transactions from the currency in which the transaction was effected into U.S. dollars. These conversions were effected at the relevant foreign currency to U.S. dollar rate in effect as at the date of the transaction unless otherwise stated. No representation is made that the rouble or U.S. dollar amounts referred to herein could have been or could be converted into roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all.

The table below sets forth, for the periods and dates indicated, the high, low, period end and period average exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR for the relevant year. Fluctuations in the exchange rate between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other financial information presented in this Prospectus.

Year	RUB per U.S.\$1.00			
	High	Low	Period end	Period average ⁽¹⁾
2012.....	34.04	28.95	31.09	30.37
2013.....	33.47	29.93	31.98	32.73
2014.....	67.79	32.66	39.14	56.26
2015.....	72.88	49.18	61.87	60.96
2016.....	83.59	60.27	60.65	67.19
October 2016.....	63.40	62.05	62.90	62.62
November 2016.....	65.86	63.20	64.94	64.31
December 2016.....	65.24	60.27	60.66	62.09
January 2017.....	60.32	59.15	60.16	59.63
February 2017.....	60.31	56.77	57.94	58.54
March 2017.....	59.21	56.38	56.38	58.01
2017 (up to and including 3 April 2017).....	60.32	55.96	55.96	58.59

Source: www.cbr.ru (CBR)

Note:

- (1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

Non-IFRS Measures

General

The non-IFRS measures described below are alternative performance measures (“APMs”) as defined in the European Securities and Markets Authority Guidelines. Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric’s components and calculation method.

This Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. These include average balance sheet date, average interest rate data, return on average assets, return on average equity, cost-to-income ratio, net interest margin, non-performing loans (“NPLs”), ratio of NPL coverage by allowance for loan impairment, cost of risk and net interest spread. The non-IFRS measures disclosed in this Prospectus are unaudited supplementary measures of CBM’s performance and liquidity that are not required by, or presented in accordance with, IFRS. Although the non-IFRS measures disclosed in this Prospectus are not measures of operating income, operating performance or liquidity derived in accordance with IFRS, CBM has presented these measures in this Prospectus because it understands that similarly titled measures may be used by some investors and analysts. The non-IFRS measures disclosed in this Prospectus should not, however, be considered as an alternative to, in isolation from or as substitutes for financial information reported under IFRS. The non-IFRS measures disclosed in this Prospectus are not measures specifically defined by IFRS and CBM’s use of these measures may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology of similar measures by other companies in its industry.

Average Balance Sheet and Interest Rate Data

This Prospectus includes information on the average balances of interest-earning assets and interest-bearing liabilities of CBM, as well as the average rate of interest income or expense for such assets and liabilities. Unless otherwise expressly stated, the consolidated average balances of assets and liabilities for the years ended 31 December 2016, 2015 and 2014 presented in this Prospectus represent the average of the opening (31 December of the previous year), quarter-end (31 March, 30 June, 30 September) and closing (31 December) balances for the applicable year.

Calculation of these average balances on weekly or daily basis could result in materially different average results. Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable period. Average interest rates are distinct from the effective interest rates presented in the consolidated financial statements of CBM. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the entire expected life of the instrument. The present value calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate. See Note 4 to each of the 2016 Annual Financial Statements and 2015 Annual Financial Statements.

CBM presents information on effective interest rates because IFRS requires this rate be used in the preparation of its consolidated financial statements. Operationally, CBM uses this information, as well as average interest rates as both are considered useful business tools.

Supplemental Data

CBM defines:

- return on average assets as profit for the period divided by the average balance of total assets (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- return on average equity as profit for the period divided by the average of total equity (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- cost-to-income ratio as operating expense (excluding recovery of (provision for) impairment of other assets and credit related commitments) divided by operating income (excluding net provision charge for loan impairment);
- net interest margin as net interest income before provision for impairment of loans divided by average Interest-Earning Assets (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- liquidity cushion as the sum of cash and cash equivalents, deposits in credit and other financial institutions and financial instruments at fair value through profit or loss and available-for-sale securities;
- total liquid assets as the sum of cash and cash equivalents, financial instruments at fair value through profit or loss, available-for-sale securities and due from credit and other financial institutions;
- NPLs as loans with overdue payments of principal loan amount and/or interest by more than 90 days;
- ratio of NPL coverage by provision for impairment of loans as loan impairment allowance divided by NPLs;

- cost of risk as net charge of loan impairment allowance for the period divided by average gross total loan portfolio (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above); and
- net interest spread as the difference between the average interest rate yield (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above) earned on Interest-Earning Assets and the average interest rate paid (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above) on Interest-Bearing Liabilities.

Translations

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. All translations in this Prospectus are direct and accurate translations of the original text.

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OVERVIEW

This overview highlights certain information concerning the business of CBM, the Notes and the Subordinated Loan. It does not contain all information that may be important to an investor in the Notes or an investment decision in relation to the Notes. This overview should be carefully read in conjunction with, and is qualified in its entirety by reference to, the more detailed information in this Prospectus, including the Financial Statements. Investors should also consider the matters set forth in “Risk Factors” before deciding to invest in the Notes. Certain statements in this Prospectus include forward-looking statements which also involve risk and uncertainties as described under “Forward-Looking Statements.”

Overview of CBM

Established in 1992, CBM is one of the leading privately owned universal banks in Russia, listed on the Moscow Exchange, that focuses on providing banking products and services to corporate customers and individuals in the Moscow Area, comprising Moscow and the Moscow region. CBM offers a comprehensive range of banking services, including corporate and retail lending, deposit-taking, cash handling, international settlements, trade finance, letters of credit, guarantees, plastic card services, foreign exchange operations and other products. CBM's corporate banking business was traditionally focused on retail and wholesale trading corporate customers, enabling CBM to capitalize on the Russian consumer market. In recent years CBM's client franchise was broadened towards large and medium sized Russian companies operating in different industry sectors with a strong emphasis on customers' credit quality. CBM's retail business is focused on consumer loans and mortgage loans to high quality retail customers, with a particular emphasis on cross-sale of retail products to the employees and clients of its corporate customers.

As at 31 December 2016, CBM's total assets comprised RUB1,568.0 billion, total gross loans to customers amounted to RUB666.7 billion, with gross loans to corporate clients and gross loans to individuals accounting for 84.9% and 15.1% of total gross loans, respectively. CBM's total equity as at 31 December 2016 constituted RUB103.4 billion. CBM's profit was RUB10.9 billion for 2016.

CBM has developed a strong cash handling platform which serves as an entry point to start new corporate customer relationships and enhance customer loyalty. Along with that, CBM's cash handling platform provides strategic benefits from a risk management perspective enabling CBM to monitor the cash flows of its corporate customers, thus supporting quality risk management and asset quality. In addition, the acquisition of INKAHRAN Group in 2015 has further reinforced CBM's position in the cash-handling services market. Through its multichannel distribution network, including offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its retail customers. CBM is focused on delivering customer-centred services, with quick and user friendly service and high levels of responsiveness. Coupled with such benefits in terms of retail banking business development as strong contribution to customer acquisition, advertising and cost efficiency, CBM's broad payment terminal network became a reliable risk management tool for retail lending providing CBM with an ability to understand consumer patterns and to cut off fraud applications for banking products based on its vast database of customers. As at 31 December 2016, CBM had 91 branches, 24 cash offices, over 1,026 ATMs and 5,725 payment terminals concentrated in the Moscow Area. See “– Business Operations – Distribution Network”.

CBM has “B1” long-term global and local currency deposit rating, “E+” financial strength rating and Ba3 counterparty risk assessment from Moody's. Fitch has assigned to CBM “BB” long-term issuer default and “B” short-term issuer default ratings. CBM also has “BB-” long-term counterparty default and “B” short-term counterparty default ratings from S&P.

Competitive Strengths

CBM's management believes that CBM has a number of competitive advantages in the Russian banking market, including the following:

- Established position in the Moscow Area banking market;
- Sustainable business model;
- High service standards and efficient multichannel distribution;
- Disciplined risk management driving asset quality;
- High operational efficiency with a potential for further growth;
- Experienced management team and strong corporate governance;
- History of strong shareholder support; and
- Delivering sustainable profitable growth.

Strategy

CBM's strategic objective is to strengthen further its position as one of the leading private universal commercial banks in Russia and become the bank of first choice for its customers. It aims to continue to provide high-quality corporate and retail banking products and services based on best international and Russian practices while achieving strong and sustainable performance.

The following are the key elements of the CBM's strategy:

- Maintain high asset quality;
- Deliver further sustainable development;
- Reaching efficiency through cost control and revenue maximisation;
- Maintain high-quality corporate governance;
- Professional team building; and
- Increasing brand value.

Risk Factors

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to the Notes, see "*Risk Factors*" and "*Forward-Looking Statements*". Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described in this Prospectus are not the only risks CBM faces. CBM has described only the risks it considers to be material. However, there may be additional risks that it currently considers immaterial or of which it is currently unaware.

OVERVIEW OF THE OFFERING

THE NOTES

The Notes:	Issue of U.S.\$600,000,000 7.50% Loan Participation Notes due 2027
Issuer:	CBOM Finance p.l.c., a public company with limited liability incorporated under the laws of Ireland whose registered office is at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland.
Borrower:	CREDIT BANK OF MOSCOW (public joint-stock company), a company organised as a public joint-stock company established under the laws of the Russian Federation whose registered office is at 2 (Building 1) Lukov Pereulok, Moscow 107045, Russian Federation.
Joint Lead Managers:	Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, HSBC Bank plc, ING Bank N.V., London Branch, J.P. Morgan Securities plc, LLC BC Region, Raiffeisen Bank International AG, “REGION Broker Company” LLC, Société Générale and Unicredit Bank AG
Trustee:	Citibank, N.A., London Branch
Principal Paying Agent and Transfer Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Deutschland AG. A copy of the register of the Notes shall be kept at the registered office of the Issuer.
Closing Date:	5 April 2017
Issue Price:	100% of the principal amount of the Notes
Form:	<p>The Notes will be in registered form. The Notes that are offered and sold outside the United States to non-U.S. persons in reliance on Regulation S will be represented by interests in the Regulation S Global Note, without interest coupons attached, deposited with a common depositary for, and registered in the name of, a nominee of, Euroclear or Clearstream, Luxembourg on or about the Closing Date.</p> <p>The Notes which are offered and sold in the United States to QIBs, as defined in Rule 144A, that are also QPs, as defined in Section 2(a)(51) of the Investment Company Act, in reliance on the exemption from registration provided by Rule 144A will be represented by interests in the “Rule 144A Global Note, without interest coupons attached, and, together with the Regulation S Global Note, the “Global Notes”) deposited with a custodian for, and registered in the name of, a nominee of DTC” on or about the Closing Date.</p> <p>Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by</p>

	<p>DTC, Euroclear and Clearstream, Luxembourg and their respective participants. Definitive Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. See “<i>Summary of the Provisions Relating to the Notes in Global Form</i>”.</p>
Denomination:	<p>The Notes may be held and transferred, and will be offered and sold, in the principal amount of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.</p>
Scheduled Redemption:	<p>Subject to receipt by the Issuer of amounts due under the Subordinated Loan Agreement and unless previously repaid or prepaid, the Notes will be redeemed at their principal amount on 5 October 2027.</p>
Early Redemption:	<p>The Notes shall be redeemed by the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof in the event that the Borrower elects to prepay the Subordinated Loan under Clause 7.3 (<i>Special Prepayment by Reason of Amendment to CBR Regulations</i>), 7.4 (<i>Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date</i>), 7.5 (<i>Prepayment at the option of the Borrower</i>) or 7.6 (<i>Special Prepayment in the Event of Taxes or Increased Costs</i>) of the Subordinated Loan Agreement and following the receipt by the Issuer of relevant funds from the Borrower. See Condition 6(B) (<i>Early Redemption</i>) of the Terms and Conditions of the Notes and Clause 7 (<i>Repayment and Prepayment</i>) of the Subordinated Loan Agreement.</p>
Interest:	<p>On each Interest Payment Date (being 5 April and 5 October in each year commencing on 5 October 2017 and ending on 5 October 2027 (the “Repayment Date”)), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, which interest under the Subordinated Loan Agreement is equal to 7.50% per annum from (and including) the Closing Date to (but excluding) the Early Repayment Date (as defined in the Subordinated Loan Agreement) and, provided that the Subordinated Loan is not prepaid on or before such date, from (and including) the Early Repayment Date to (but excluding) the Repayment Date at the Reset Rate of Interest (as defined in the Subordinated Loan Agreement).</p>
Risk Factors:	<p>An investment in the Notes involves a high degree of risk. See “<i>Risk Factors</i>”.</p>
Use of proceeds:	<p>The proceeds of the Notes will be used by the Issuer for the sole purpose of financing the Subordinated Loan to the Borrower. In connection with the receipt of the Subordinated Loan, the Borrower will pay a facility fee to the Issuer. The net proceeds from the offering of the Notes will be used by CBM</p>

	<p>for general banking purposes, including, without limitation, to finance the purchase of the Existing Notes pursuant to the Tender Offer launched by the Issuer on 20 March 2017, pursuant to a tender offer memorandum of the same date, expected to be settled on or about 3 April 2017. See “<i>Use of Proceeds</i>”.</p>
Status of the Notes:	<p>The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited to the assets securing the Notes. The Notes are secured in the manner described in the Trust Deed and shall at all times rank <i>pari passu</i> and without preference amongst themselves.</p>
Limited Recourse:	<p>The Notes will constitute the obligation of the Issuer to apply the gross proceeds from the issue of the Notes solely for the purpose of financing the Subordinated Loan to the Borrower pursuant to the terms of the Subordinated Loan Agreement. The Issuer will only account to the Trustee and the Noteholders for all amounts equivalent to those (if any) actually received and retained (net of tax) from the Borrower in respect of principal, interest and any additional amounts under the Subordinated Loan Agreement, or held on deposit in the Account (as defined in the Trust Deed), less amounts in respect of the Reserved Rights (as defined in the Trust Deed), all as more fully described under “<i>Terms and Conditions of the Notes</i>”.</p> <p>All moneys received by the Trustee under the Trust Deed shall be applied in accordance with the priority of payments (as more fully set out in the Trust Deed).</p>
Security:	<p>The Issuer’s payment obligations under and in respect of the Notes and its obligations under the Trust Deed will be secured by a first fixed charge with full title guarantee in favour of the Trustee for the benefit of itself and the Noteholders of:</p> <ul style="list-style-type: none"> (a) its rights to all principal, interest and additional amounts (if any) payable by the Borrower under the Subordinated Loan Agreement; (b) its right to receive all sums which may be or become payable by the Borrower or under any claim, award or judgment relating to the Subordinated Loan Agreement; and (c) its rights, title and interest in and to all sums of money now or in the future deposited in, the Account (as defined in the Trust Deed), (in each case, other than the Reserved Rights), <p>all as more fully described under “<i>Terms and Conditions of the Notes</i>”.</p> <p>In addition, the Issuer with full title guarantee will assign absolutely certain administrative rights under the Subordinated</p>

	<p>Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of itself and the Noteholders, as more fully described under “<i>Terms and Conditions of the Notes</i>”.</p>
Restrictions and Covenants:	<p>So long as any Note remains outstanding, the Issuer shall not, without the prior written consent of the Trustee, inter alia, incur any other indebtedness for borrowed moneys, other than the issue of notes on a limited recourse basis for the sole purpose of making any loan to the Borrower, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes, making the Subordinated Loan to the Borrower pursuant to the Subordinated Loan Agreement or any future loans to the Borrower or any other issue of notes as aforesaid (including derivative transactions on a limited recourse basis) declare any dividends, or have any subsidiaries. See “<i>Terms and Conditions of the Notes – 4 (Restrictive Covenant)</i>”.</p>
Write down of the Notes following a Write Down Event:	<p>The Notes may be cancelled and all claims in respect thereof written down, in whole or in part, in the event of a write down of amounts due under the Subordinated Loan Agreement following a Write Down Event (as defined in the Subordinated Loan Agreement). Upon any such write down and cancellation of the Notes, (i) Noteholders shall automatically be deemed to irrevocably waive their right to receive, and shall no longer have any rights against the Issuer with respect to, repayment of any principal amount of the Notes, accrued and unpaid interest and (if any) additional amounts, in each case so written down and cancelled; and (ii) all rights of Noteholders for payment of any amounts under or in respect of the Notes (including, without limitation, accrued and unpaid interest and any additional amounts subject to write down and cancellation shall become null and void, irrespective of whether such amounts have become due and payable. See Condition 6(C) (<i>Write down of the Notes following a Write Down Event</i>) of the Terms and Conditions of the Notes and Clause 8 (<i>Write Down</i>) of the Subordinated Loan Agreement.</p>
Disapplication of Certain Conditions:	<p>In the event that the Subordinated Loan is not confirmed as Tier 2 Capital prior to the Approval Date (as such terms are defined in the Subordinated Loan Agreement), Condition 6(C) (<i>Write down of the Notes following a Write Down Event</i>) shall not apply.</p>
Amendments/Waiver:	<p>As long as any of the Notes remain outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Subordinated Loan Agreement.</p>
Enforcement:	<p>Upon occurrence of an Acceleration Event (as defined in the</p>

Subordinated Loan Agreement) or a Relevant Event (as defined in the Trust Deed), the Trustee may or, in certain circumstances shall, take the action permitted to be taken by the Issuer as lender under the Subordinated Loan Agreement (in the case of an Acceleration Event), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event).

Upon the repayment of the Subordinated Loan or the receipt in full of all principal and interest accrued under the Subordinated Loan following an Acceleration Event and a declaration as provided in the Conditions, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding. See “*Terms and Conditions of the Notes*”

Withholding Tax:

All payments in respect of interest and principal on the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of Ireland and the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Trustee and the Noteholders for the sums equivalent to the sums received and retained (net of tax) from the Borrower. See “*Terms and Conditions of the Notes*”. In such circumstances, the Borrower will be required to increase the sum payable under the Subordinated Loan Agreement to the extent necessary to ensure that the Issuer receives and retains (net of tax) a net sum sufficient to pay to the Noteholders such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been made or required to be made.

Listing and Trading:

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market.

Rating:

The Notes are rated BB- by Fitch.

A credit rating assigned to the Notes does not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The rating does not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The

	significance of each rating should be analysed independently from any other rating.
Selling Restrictions:	<p>The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). The Issuer has not been and will not be registered under the Investment Company Act. The Issuer is relying on the exemption from the requirements of the Investment Company Act provided by Section 3(c)(7) thereof. The Notes may be offered and sold (i) within the United States to QIBs that are also QPs in reliance on the exemption from registration provided by Rule 144A; and (ii) to non-U.S. persons in offshore transactions in reliance on Regulation S.</p> <p>The Notes may be sold in other jurisdictions (including the United Kingdom, Russia and Ireland) only in compliance with applicable laws and regulations. See “<i>Subscription and Sale</i>”.</p>
ERISA:	The Notes may not be sold or transferred to any Benefit Plan Investor (as defined herein), and no Benefit Plan Investor is permitted to purchase or hold any of the Notes. See “ <i>Certain ERISA Considerations</i> ”.
Governing Law:	The Notes, the Trust Deed and the Subordinated Loan Agreement and any non-contractual obligations arising out of or in connection with them, shall be governed by, and construed in accordance with, English law.
Security Codes:	<p>Regulation S ISIN: XS1589106910</p> <p>Regulation S Common Code: 158910691</p> <p>Rule 144A ISIN: US12504PAD24</p> <p>Rule 144A CUSIP: 12504PAD2</p>
THE SUBORDINATED LOAN	
Lender:	The Issuer
Borrower:	CBM
Principal amount of the Subordinated Loan	U.S.\$600,000,000
Interest on the Subordinated Loan	7.50% per annum from (and including) the Closing Date to (but excluding) the Early Repayment Date (as defined in the Subordinated Loan Agreement) and, provided that the Subordinated Loan is not prepaid on or before such date, from (and including) the Early Repayment Date to (but excluding) the Repayment Date at the Reset Rate of Interest (as defined in the Subordinated Loan Agreement).
Status of the Subordinated Loan:	The Subordinated Loan and all payment obligations expressed to be assumed by the Borrower thereunder constitute direct,

general, unconditional, subordinated and unsecured obligations of the Borrower which will at all times rank at least *pari passu* with the claims of all other subordinated creditors of the Borrower (whether actual or contingent) having a fixed maturity from time to time outstanding.

Reclassification:

If the CBR fails to issue the Final Conclusion (as defined in the Subordinated Loan Agreement) to the Borrower on or before the Approval Date (as defined in the Subordinated Loan Agreement), the Subordinated Loan shall be treated as senior in priority to any subordinated debt or Capital Stock of the Borrower in accordance with the terms of Clause 4.4 (*Reclassification*) of the Subordinated Loan Agreement and the provisions of Clause 8 (*Write Down*) shall not apply.

Limited Acceleration Events:

Payment Default:

If the Borrower fails to pay any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than 14 days, the Lender may at its discretion and without further notice, institute proceedings in a manner and to the extent contemplated by the applicable law for the insolvency (bankruptcy) of the Borrower and/or to prove for its debt, and claim, in any consequent liquidation of the Borrower. This provision however does not apply to a failure to pay caused by the occurrence of a Write Down Event in accordance with Clause 8 (*Write Down*) of the Subordinated Loan Agreement.

Winding-up:

On the occurrence of any of the following events:

- (a) the commencement of any liquidation of the Borrower;
- (b) the entering into force of the decision of a competent court of the Russian Federation on bankruptcy of the Borrower;
- (c) any revocation of any licence for the performance of banking operations of the Borrower; or
- (d) any other event, under Russian law, whereby the obligations of the Borrower under this Agreement are accelerated (otherwise than at the option of the Borrower),

the Lender may accelerate the Subordinated Loan at the outstanding principal amount thereof together with any interest accrued and unpaid to the date of repayment and any additional amounts due from the Borrower under the Subordinated Loan Agreement, and the Lender may take any actions in the manner and to the extent contemplated by the applicable law of the

	<p>Russian Federation to prove for its debt and/or, to the extent applicable, commence liquidation or winding up proceedings of the Borrower.</p>
Withholding Tax:	<p>All payments in respect of interest and principal to be made by the Borrower under the Subordinated Loan Agreement will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable under the Subordinated Loan Agreement or the Borrower or shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Issuer of such amounts as would have been received and retained had no such deduction or withholding been required.</p>
Prepayment:	<p>The Borrower may elect to prepay the Subordinated Loan under Clause 7.3 (<i>Special Prepayment by Reason of Amendment to CBR Regulations</i>), 7.4 (<i>Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date</i>), 7.5 (<i>Prepayment at the option of the Borrower</i>) or 7.6 (<i>Special Prepayment in the Event of Taxes or Increased Costs</i>) of the Subordinated Loan Agreement and following the receipt by the Issuer of relevant funds from the Borrower. See Clause 7 (<i>Repayment and Prepayment</i>) of the Subordinated Loan Agreement.</p>
Write down of the Subordinated Loan following a Write Down Event:	<p>The amounts due under the Subordinated Loan Agreement may be written down following a Write Down Event (as defined in the Subordinated Loan Agreement). On the applicable Write Down Measure Effective Date (as defined in the Subordinated Loan Agreement) (a) applicable amounts under or in respect of the Subordinated Loan will be written down and cancelled in an amount equal to the Write Down Amount; (b) the Lender and the Trustee on behalf of the Noteholders shall automatically be deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Borrower with respect to, repayment of such portion of the accrued and unpaid interest and, if applicable, aggregate principal in respect of the Subordinated Loan, in each case so written down and cancelled pursuant to (a) above and Monetary Damages (as defined in the Subordinated Loan Agreement); and (c) all rights of the Lender and the Trustee for payment of any amounts under or in respect of the Subordinated Loan so written down and cancelled shall become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Write Down Event Notice or the Write Down Measure Effective Date.</p>
Governing Law:	<p>The Subordinated Loan Agreement and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with, laws of</p>

England.

RISK FACTORS

Prospective investors should consider carefully, among other things, the risks set forth below and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. CBM notes that in a number of situations, which it cannot always control, these risks may materialise and may negatively affect CBM's ability to comply with its payment obligations under the Subordinated Loan Agreement and, as a result, the debt service by the Issuer on the Notes. These risk factors, individually or together, could have a material adverse effect on CBM, the Issuer and/or their respective businesses, operations and financial conditions and/or the rights under the Notes of the holders of the Notes. In addition, the value of the Notes could decline due to any of these risks, and investors may lose some or all of their investment.

Prospective investors should note that the risks described below are the principal risks which CBM believes are relevant to prospective investors, but they are not the only risks each of CBM or the Issuer, as the case may be, faces. There may be additional risks of which CBM or the Issuer is not currently aware, and any of these risks could have a negative effect on CBM's ability to comply with its payment obligations under the Subordinated Loan Agreement or the debt service by the Issuer on the Notes. Prospective investors are urged to consult with their own legal, financial and tax advisors before making an investment decision in the Notes.

Risks Relating to CBM's Business and Industry

The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on CBM's business

Slowdown of global and Russian economies

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints during the global financial and economic crisis which started in the second half of 2008 (the "2008/2009 crisis"). In response to the 2008/2009 crisis, many of the largest countries in the world, including Russia, the United States and EU countries, implemented significant rescue packages, which included, among other things, the recapitalisation of banks through the state purchase of common and preferred equity securities, the state guarantee of certain forms of bank debt, the purchase of distressed assets from banks and other financial institutions by the state, quantitative easing and the provision of guarantees of distressed assets held by banks and other financial institutions by the state. While the effect of the 2008/2009 crisis has continued, to some degree, in present, generally, global economies have been gradually recovering from the downturn caused by the 2008/2009 crisis which resulted in tapering the previously implemented rescue packages.

The volatility and market disruption in the global banking sector continue to impact global markets. In particular, global financial markets experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain and Italy. Residual concerns regarding the creditworthiness of European sovereign debt, reflected in, among other factors, sovereign credit spreads, continued to diminish in 2014. In 2015, concerns have re-emerged specifically with respect to Greek sovereign debt following the general election victory of "anti-austerity" parties and subsequent referendum with regard to the debt restructuring plan, where the proposed measures were rejected by the Greek people. A unilateral Greek default on its debt or a Greek exit from the Eurozone or an increase in speculation about these matters could impact on sentiment towards other Eurozone bond markets and broader international debt markets. International debt markets could also be impacted by more general concerns over levels of fiscal deficits, requirement for support of the banking system, evolving sovereign debt levels of Member States, speculation about the stability of the Eurozone and the potential impact of these factors on the individual Member State economies.

In addition, on 23 June 2016, a referendum was held on the United Kingdom's membership in the European Union (the "EU"), which resulted in a public vote in favour of the United Kingdom leaving the EU ("Brexit"). The outcome of the vote has caused considerable uncertainty, which is likely to remain in the near future, as to the political implementation of that mandate, the nature and timing of such an exit, the risk of contagion in other member states and whether and to what extent this could continue to negatively impact the European markets. The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal. In certain parts of the EU, candidates from opposition parties are gaining popularity and the upcoming elections in Germany and France may cause further uncertainty and instability in the financial markets. In addition, policy positions taken by the new U.S. presidential administration may result in turbulence in the financial markets and lead to greater uncertainty regarding the status of trade relations between the U.S. and some of its largest trade partners, including existing trade agreements with the U.S. Such developments could also lead to an increase in the already high level of protectionism globally. The worsening of trade relations between certain of the larger global economies could have a knock-on effect on global trade generally and the broader economic environment.

Any similar events affecting the integrity of the Eurozone or EU generally or any further economic downturns, could have an adverse effect on the financial stability both in the EU and globally and could impact the investor sentiment towards EU financial markets and international debt markets, generally. The latter could also be negatively impacted by growing concerns over levels of fiscal deficits, requirements for support of the banking system, increasing sovereign debt levels of the EU member states, speculations regarding the stability of the Eurozone and the potential impact of these factors on individual EU member state economies.

The substantial majority of the Group's assets and customers are located in, or have businesses related to, Russia. As a result, the Group is substantially affected by the state of the Russian economy, which is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials.

Following a period of stabilisation after the acute stage of the 2008/2009 crisis, the Russian economy's growth has been gradually slowing down, and Russian economic conditions deteriorated significantly during 2014 and 2015, and continued to deteriorate in 2016. In particular, according to estimates of Rosstat, Russia's gross domestic product ("GDP") growth slowed from 4.3% in 2011 to 3.5% in 2012, to 1.3% in 2013 and to 0.7% in 2014. In 2015 and 2016, Russia's GDP declined by 3.7% and 0.2%, respectively. In 2017, according to the Ministry of Economic Development of the Russian Federation, Russia's GDP is expected to marginally increase by 0.6%, subject to current global oil prices.

The negative developments affecting the Russian economy in 2014 and 2015 have been aggravated by the impact of the political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland). These events have also reduced, to a significant extent, the ability of Russian companies and banks to raise new debt or refinance existing debt in international capital markets.

Any of these factors could adversely affect the financial condition of CBM's customers and may result, among other things, in a decrease in the funds that its customers hold on deposit with CBM, a change in CBM's strategy, a reduction in the demand for loans, foreign currency, investment and other banking transaction services that these customers carry out with CBM, as well as a general deterioration in the quality of CBM's loan portfolio and/or a reduction in the market values of securities or other assets held on CBM's balance sheet, leading to possible defaults and/or the need for increased provisions.

Dislocation of the global and Russian banking sector

The volatility and market disruption in the global banking sector continued, to a certain extent, throughout 2011-2014, affecting the liquidity of banks around the world, causing the reduction in financing available to financial institutions and provoking persisting doubts about the overall stability of the global economy, monetary system, banking sector and economic conditions in certain countries, including certain EU countries and Russia. Although in 2015 and 2016, the global banking sector has, to a certain extent, stabilized, the Russian banking sector has remained relatively unsteady and highly dependent on global market trends and, in particular, continues to be affected by the volatility and periodic downturns of the European and U.S. markets.

A geopolitical instability, a decline in oil prices, disruption in the global credit markets, sharp depreciation of the Rouble, volatility of the Russian stock market and the inability of Russian companies and banks to access international capital markets have negatively impacted the Russian banking sector. Disruption in the global and Russian securities and currency markets has had a negative impact on investor confidence and has adversely affected the interbank markets and debt issuance in terms of volume, maturity and credit spreads. Net interest margin in the Russian banking sector has narrowed, or, in some cases, became negative. Due to the decreased quality of loan portfolio and increased provisions for loan impairment, the interest income slowed, or, in some cases, declined. Furthermore, the significant depreciation of Russian Rouble against foreign currencies and a sharp increase of the key rate at the end of 2014 increased volatility on Russian securities market and perceived high inflation have negatively impacted the results of operations of Russian banks, including CBM.

During turbulence in the financial markets, the Russian Government and the CBR historically have implemented measures intended to support the liquidity and solvency of Russian banks and to significantly increase the availability of credit to businesses, which have been seen critical for restoring investor confidence and supporting the growth of the Russian economy. There can be no assurance that the measures taken by the Russian Government and the CBR will succeed in the future, and will materially improve the liquidity position and financial condition of Russian banks at a time of a financial crisis.

In addition, a significant decline in the credit rating of the Russian Federation or financial institutions could cause severe stress in the Russian financial system generally and the business and economic condition and prospects of CBM's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which are difficult to predict. The credit rating of the Russian Federation has been downgraded by each of Moody's, Fitch and S&P mainly driven by the negative impact on the Russian economy of the Ukraine crisis and related sanctions imposed on certain Russian individuals and legal entities, which effects have been further aggravated by a significant decline in global oil prices as a result of Russia's heavy reliance on oil exports. In particular, in October 2014, Moody's downgraded Russia's sovereign rating to "Baa2" with a negative outlook, and, in February 2015, Moody's further downgraded Russia's sovereign rating to "Ba1" with a negative outlook. In December 2015, Moody's changed Russia's sovereign rating's outlook to "stable". In March 2016, Moody's adjusted Russia's sovereign rating outlook to "negative watch", and further to "negative" in April 2016. In February 2017, Moody's revised Russia's outlook to "stable". In March 2014, Fitch adjusted its sovereign rating outlook for the Russian Federation from "stable" to "negative", and, in January 2015, Fitch downgraded Russia's sovereign rating to "BBB-" with a negative outlook which was revised to stable in October 2016. In March 2014, S&P adjusted its sovereign rating outlook for the Russian Federation from "stable" to "negative", and in April 2014, S&P downgraded Russia's sovereign rating from "BBB" to "BBB-" with a negative outlook and further downgraded it to "BB+" in January 2015 which was revised to stable in September 2016 and further to positive in March 2017. As at the date of this Prospectus, Russia's sovereign ratings were "Ba1" with a stable outlook from Moody's, "BB+" with a positive outlook from S&P and "BBB-" with a negative outlook from Fitch.

As at the date of this Prospectus, CBM had “B1” rating with a stable outlook from Moody’s, “BB” rating with a negative outlook from Fitch and “BB-” rating with a negative outlook from S&P.

There can be no assurance that CBM or the Russian Federation will be able to maintain their current credit ratings and any deterioration in the general economic or political environment or CBM’s financial condition could lead to further downgrades.

Any such downgrades could adversely affect CBM’s liquidity and undermine confidence in CBM, which could lead to increased borrowing costs and restrict CBM’s access to capital markets. An increase in CBM’s cost or reduction in availability of funding could lead to pressure on CBM to meet deposit withdrawals on demand or at their contractual maturity, to service the credit facilities of existing customers or to fund new loans, investments and businesses. Furthermore, reduced liquidity and cost of capital could adversely affect CBM’s ability to repay its own borrowings as they mature, to meet covenants and other obligations under its own financing facilities or to raise further financing, for example, by issuances of debt securities, at favourable terms to CBM, or at all. Should CBM’s access to new financing become limited, it could be forced to sell unencumbered assets to meet its liabilities. In a time of reduced liquidity, CBM may be unable to sell some of its assets, or it could be forced to make such sales at depressed prices, which in either case could adversely affect CBM’s business, financial condition, results of operations or prospects.

Furthermore, recently, a number of Russian banks have experienced other difficulties, including failure to make sufficient loss provisions, that have caused them to become insolvent and have their licences revoked or to recognise large loan impairments that required steps to replenish their capital. Intensified withdrawal of banking licences as a result of inability of certain banks to meet the mandatory requirements of the CBR, failure to comply with anti-money laundering regulations or due to other reasons could result in lower investor confidence in the Russian banking system generally and investors or depositors, as the case may be, reducing their exposure to Russian bank equities, debt or deposits, including those of CBM, which could be materially adverse to CBM’s business, financial condition, results of operations and prospects, as well as the price of the Notes.

The Russian banking market is highly competitive, and a failure to compete effectively could have a material adverse effect on CBM’s business

The Russian banking market is highly competitive. According to the CBR, as at 1 January 2017, 975 banks and non-banking credit organisations were operating in the Russian Federation. Notwithstanding the large number of banks, the sector is also highly concentrated, with the 20 largest banks holding an aggregate of 78.1% of total banking sector assets as at 1 January 2017, and the strongest participants being large state-controlled banks. The ongoing consolidation in the Russian banking industry, and particularly amongst the group of largest banks, further increases competitive pressures. Furthermore, many of the largest Russian banks are based or have significant operations in the Moscow Area, where the Group’s business is focused.

CBM faces significant competition in substantially all of the business segments in which it operates. CBM competes for client business primarily on the basis of the quality of its service and the breadth of its product offerings, as well as the pricing of its loans and the interest rate it pays on deposits. In corporate banking, CBM competes primarily with Sberbank, VTB Group, Promsvyazbank, Alfa-Bank and Bank Otkritie, and in retail banking, CBM competes primarily with Alfa-Bank, Raiffeisen Bank, UniCredit Bank, Sberbank, B&N Bank and VTB 24. CBM faces particularly intense and increasing competition from state-controlled banks such as Sberbank and VTB Group, which often have access to cheaper sources of funding, are often significant beneficiaries of government funding programmes and generally may be seen by depositors as less risky and, as such, able to pay relatively lower rates on deposits. Accordingly, these banks are often able to maintain or increase their market share by offering credit products at lower prices. Since loans to customers constitute the largest portion of Interest Earning Assets, the increased competition in the banking sector has had, and is expected to continue to have, an adverse effect on CBM’s results of operations.

In light of the continuing economic and political uncertainties which have resulted in increased costs of funds on international capital markets and wholesale markets more generally, and in their efforts to attract more deposits as a source of funding, some Russian banks increased the rates that they pay on deposits, primarily in the end of 2014. CBM has also been affected by a complicated market environment facing suppressed net interest margin, in particular, on retail banking operations. At the same time, CBM managed to adjust interest rates in corporate business, thus, maintaining a relatively stable net interest margin. Competition may further intensify if the global or Russian economy deteriorates and demand for high quality assets increases among banks.

CBM also competes on the quality and awareness of its banking products and services, as well as its reputation. Any reduction in the quality or perceived quality of its products or services (or significant improvements or perceived improvements in those offered by its competitors) may negatively impact on CBM's ability to compete. Any failure by CBM to compete effectively in the corporate or retail banking sectors, or further compression of interest rate margins resulting from competitive pressures, could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

In addition to traditional banks, in the future CBM may face increasing competition from financial services companies or online banks, particularly in retail banking. Lower overhead costs and fixed costs due to the fact that there is no need to have network of offices may allow online banks to compete with traditional banks. In order for CBM to compete successfully with online banks, CBM will need to provide its clients with a superior user experience in terms of convenience and functionality on the basis of a high-end platform.

Furthermore, substantially all of CBM's business is with customers that have a significant presence in the Moscow Area. CBM's distribution network is also concentrated in the Moscow Area. Any further deterioration of economic conditions in the Russian Federation in general and in the Moscow Area in particular may further increase competition among Russian banks for creditworthy borrowers, as well as may adversely affect the business of CBM's customers and, consequently, could have a material adverse impact on CBM's financial condition, results of operations and prospects.

CBM's financial position and results of operations could be affected by declining net interest margin

CBM's results of operations depend substantially on its net interest income. For the year ended 31 December 2016, the Group had net interest income before provision of impairment of loans of RUB40,299.3 million as compared to RUB29,288.5 million for the year ended 31 December 2015 and RUB25,882.5 million for the year ended 31 December 2014. As a result of fluctuations in the net interest income, the Group has experienced significant volatility in net interest margin in 2014-2016. The net interest margin decreased from 5.8% for 2014 to 3.9% for 2015 and further to 3.3% for 2016. The decrease in the Group's net interest margin was primarily attributable to the increased share of liquid assets as a result of CBM's conservative approach to liquidity management. See – “*Presentation of Financial Information – Non-IFRS Measures*”.

Additionally, movements in short- and long-term interest rates affect both the Group's interest income and expense. During 2013, average interest rates on deposits in the Russian market increased as compared to 2012 due to reduced liquidity, primarily as a result of a decline in oil prices. Average interest rates on loans to customers also increased in 2013. In 2014, due to the geopolitical instability as a result of the Ukraine crisis, related sanctions imposed by the U.S and EU, as well as high volatility of Rouble, the international capital markets were largely inaccessible to Russian borrowers. In light of the liquidity constraint and increase by the CBR of its key rate during 2014 in response to perceived risk of high inflation and depreciation of Russian Rouble, the banks substantially increased rates on customer deposits. Rates on lending were also raised subsequently in an attempt to maintain margins. In 2015, interest rates on customer deposits increasing at a significantly higher rate as compared to lending rates due to competition, enhanced with concerns regarding customer defaults,

fixed rates in existing loan commitments or facilities, as well as legal requirements increased pressure on margins. As a result of improving macroeconomic conditions in Russia, stabilisation of the financial markets and excess liquidity in the banking sector, the CBR continued decreasing its key rate significantly from 11.0% as at 1 January 2016 to 10.0% with effect from September 2016. See also “ – *The Russian banking market is highly competitive, and a failure to compete effectively could have a material adverse effect on CBM’s business*”. These factors, together with the necessity to maintain customer deposit interest rates at high levels and further decreases in key rates by the CBR, have resulted in increased pressure on margins and profitability.

Reductions in market interest rates could affect the interest rates earned on the interest-earning assets, leading to a reduction in CBM’s net interest income and adversely affecting its financial position and results of operations.

The quality of CBM’s loan portfolio may continue to be tested in adverse economic conditions

CBM has been subject to risks regarding the credit quality and recovery of loans to, and amounts due from, customers and market counterparties. The current downturn in the Russian economy has affected, and may continue to affect, the ability of many companies and individuals to repay their loans, particularly foreign currency denominated loans. Factors including, without limitation, increased unemployment in Russia, inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and/or fluctuating interest rates may reduce the ability of CBM’s customers and market counterparties to repay loans.

In addition, changes in economic conditions may result in further deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default. Any changes in the credit quality of CBM’s Russian and international borrowers and counterparties, arising from systemic risks in the Russian and global financial systems, could accordingly reduce the value of CBM’s assets, and require an increase in CBM’s write downs and provision for impairment of loans. Were circumstances or risks to occur which CBM has not identified or anticipated in developing risk management methods for NPLs, provisioning levels and write offs could be greater than expected, which could have a material adverse effect on CBM’s business. CBM’s loan impairment allowance was RUB40,203.4 million as at 31 December 2016, RUB36,873.6 million as at 31 December 2015 and RUB16,176.2 million as at 31 December 2014. Furthermore, as at 31 December 2016, the NPLs accounted for 2.3% of the total gross loan portfolio as compared to 5.1% of the total gross loan portfolio as at 31 December 2015 and 2.3% of the total gross loan portfolio as at 31 December 2014. In addition, the ratio of total impairment allowance to overdue loans was 208.3% as at 31 December 2016, 80.5% as at 31 December 2015 and 111.2% as at 31 December 2014. The increase in provision for impairment of loans and loan impairment allowance during the periods under review partly reflected deterioration of the quality of CBM’s loan portfolio as a reaction to the uncertain economic environment in Russia, and such conservative provisioning was in line with the market trend as a result of adverse macroeconomic factors. In addition, the increase in 2015 was due to a conservative provisioning policy of CBM in light of the challenging market environment and is also in line with preparation of new IFRS reporting standards. Additionally, the increase in provisions stemmed from a few corporate defaults by large companies that were the borrowers of CBM. As a result of such defaults, the loans were either restructured or written off. While some of these borrowers, whose loans were restructured during 2016, commenced servicing their indebtedness which resulted in the decrease of NPLs as at 31 December 2016 as compared to 31 December 2015, the loan impairment allowance has not correspondingly changed due to the CBM’s provisioning policy.

Any further deterioration in the performance of the Russian economy or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in respect of the banking sector, could have a material adverse effect on the development of CBM’s business, financial condition, results of operations and prospects, and, in particular, may adversely impact its ability to expand and achieve profitability in its loan portfolio.

CBM may not be able to assess accurately the credit risk of potential borrowers

Credit risk assessment is generally more difficult for Russian banks than for banks operating in certain other jurisdictions due to a lack of reliable information in the Russian Federation about potential borrowers. In particular, it is difficult to make long-term forecasts with respect to a borrower's financial position as the financial performance of Russian companies is generally more volatile and their credit quality is less predictable than those of similar companies in more mature markets and economies. Further, many potential corporate borrowers do not prepare audited accounts in accordance with IFRS and/or do not have extensive or externally verified credit histories. In extending retail loans, CBM makes approval decisions on information derived from various sources, including data provided by the borrowers (formal documents such as individual income certificate, extract from the borrower's employment records), as well as data provided by third parties (such as National Bureau of Credit Histories (a leading Russian credit histories bureau) and the borrower's employer). CBM has an established retail client base, of which 40% is attributable to employees of CBM's corporate customers, 32% - active customers that are not employees of CBM's corporate customers, 16% - new customers with positive credit history verified by National Bureau of Credit Histories, 7% - other customers with which CBM has a prior customer relationship (such as through the use of CBM's payment terminal network) and 5% - walk-in ("street") customers. Under CBM's strategy, its target customers include employees and clients of CBM's corporate customers, clients with a positive credit history with other banks, as well as public sector employees. CBM focuses on cross-selling its retail products to its existing customers and new corporate channel customers. CBM targets these customer categories, as CBM has relatively extensive and accurate information on their behaviour pattern, accordingly, CBM considers them to have a lower credit risk profile. In the fourth quarter of 2015, in response to the uncertainties in Russian economy, CBM tightened loan origination standards approval process. Nevertheless, there is a risk that loan origination, controlling, verification and IT procedures of CBM may generate errors, or a CBM officer may fail to adhere to compliance procedures which may lead to incorrect assessment of the level of risk of a particular retail borrower. CBM may also be unable to evaluate accurately the current financial condition of each prospective borrower or independently assess information provided by credit applicants, and thus may be unable to determine the long-term economic outlook for each such borrower.

Notwithstanding the risk assessment procedures and systems that CBM has in place, there is no assurance that such procedures and systems, provisions for impairment and supporting collateral will be sufficient to protect CBM against increased levels of defaults, losses or potential write-offs. Failure to properly assess the risk of potential borrowers or deterioration in the financial condition of a significant number of CBM's corporate or retail customers may have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

A decline in the value of, or illiquidity of, the collateral securing CBM's loans may materially and adversely affect the loan portfolio

A portion of CBM's corporate loans, as well as its mortgage and auto loans, are secured by collateral such as securities, real estate, goods in turnover, equipment and motor vehicles, guaranteed deposits and CBM's own debt securities. As at 31 December 2016, 47% of CBM's net loans to legal entities (net of impairment) was secured by liquid collateral, and the remaining portion was secured by corporate sureties and unsecured. Downturns in the relevant markets and a general deterioration of economic conditions in the Russian Federation may result in declines in the value of collateral securing a number of loans. As collateral values decline, the value of the collateral may not be sufficient to cover the remaining loan balances. Moreover, in the past, CBM may have accepted collateral that is insufficient to cover the value of the loan. A decline in the value of collateral securing CBM's loans, or an inability to realise existing collateral or obtain additional collateral has in the past required, and may continue to require, CBM to reclassify the relevant loans, establish additional loan impairment allowance and increase reserves, which could adversely affect CBM's business, financial

condition, results of operations and prospects. See “- *Risks Relating to the Russian Legal System and Legislation – It may be difficult to enforce security and sureties under Russian law*”.

The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition

CBM is subject to concentration risk in its loan portfolio and deposit funding which increased during the periods under review as a result of implementation of the strategy to increase exposure to large corporate customers in response to the current economic environment. CBM's management believes that large and high-quality corporate clients are more stable in volatile markets and economic uncertainty, have a strong capital position and provide a healthy demand for banking services.

As at 31 December 2016, loans to oil and industrial chemicals, food and farm products, property rental, financial and automotive, motorcycles and spare parts industries accounted for 15.2%, 10.8%, 9.4%, 8.9% and 7.5%, respectively, of CBM's gross loan portfolio. CBM intends to continue to focus on providing loans to companies operating in oil and gas sectors, as well as to enterprises in industrial production sectors. As at 31 December 2016, loans to individuals accounted for 15.1% of CBM's gross loan portfolio. In June 2015, as part of the state programme of capitalisation of Russian banks, CBM entered into subordinated loan agreements with the Deposit Insurance Agency of the Russian Federation (the “**Deposit Insurance Agency**”) in the aggregate amount of RUB20,231.0 million, which have been included in full in the CBM's regulatory capital under the CBR regulations and Basel III. Under this programme, CBM has undertaken to expand its loan portfolio, including the provision of loans to corporates and SMEs operating in designated sectors of the Russian economy including agriculture and food processing, the chemical industry, machinery, construction, transportation, communication and energy. The implementation of this programme may lead to an increased level of concentration in certain industries such as these. A downturn in any of these sectors could result in CBM's clients facing difficulties in servicing their loans. As at 31 December 2016, the Group's top-20 borrowers accounted for 43.5% of the loan portfolio as compared to 41.0% of the loan portfolio as at 31 December 2015 and 30.0% as at 31 December 2014.

The CBR imposes a limit on all Russian banks' exposure to a single borrower or group of related borrowers of 25 per cent. of such bank's regulatory capital, which must be monitored on a daily basis. As at the date of this Prospectus, CBM is in compliance with the CBR's limit on exposure to a single borrower or a group of related borrowers. However, CBM's exposure to a single borrower or a group of related borrowers could rise above this limit, due to a change in the composition of CBM's loan portfolio, fluctuations in foreign currency or changes in the CBR's limit level or interpretation of how the limit should be calculated. The sanctions for failure to comply with this requirement could include fines, temporary administration of CBM by the CBR or revocation of CBM's banking licence. If CBM exceeded its exposure to a single borrower or a group of related borrowers and the CBR took such steps, CBM's business, financial condition, results of operations or prospects could be materially adversely affected.

Deposits by customers accounted for 47.1%, 80.5% and 63.8% of CBM's total liabilities as at 31 December 2016, 2015 and 2014, respectively. As at 31 December 2016, CBM had one counterparty whose demand and term deposits exceeded 10% of total customer accounts with the gross value of this balance of RUB243.3 billion. As at 31 December 2015, CBM had two counterparties whose demand and term deposits exceeded 10% of total customer accounts with the gross value of these balances of RUB493.6 billion. In 2016, deposits by customers decreased from RUB898.7 billion as at 31 December 2015 to RUB689.5 billion as at 31 December 2016 primarily as a result of a scheduled repayment of certain deposits in the end of 2016 placed by one counterparty. Generally, the deposits from this counterparty are divided into portions with different maturities which CBM considers comfortable from liquidity risk management perspective. The majority of CBM's top-20 depositors are large Russian companies operating in different sectors of the economy. These companies have longstanding relationships with CBM. In CBM's view, these companies generate a positive cashflow,

receive stable income and the risk of unpredictable withdrawal of funds is remote. To mitigate liquidity risk by having a comfortable liquidity cushion and as part of its current strategy in response to the uncertain economic environment in Russia, CBM increased the share of liquid debt securities with lower interest rates in its portfolio.

CBM's failure to minimise the risk of concentration may have a material adverse effect on its business, financial condition, results of operations or prospects. Any impairment in the ability of such borrowers to repay their loans or any decision by these customers to withdraw their funds from current accounts and term deposits prior to stated maturity could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM is exposed to liquidity risk

CBM is exposed to liquidity risk arising out of the mismatches between the maturities of CBM's assets and liabilities, which may result in CBM being unable to meet its obligations in a timely manner. The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group calculates liquidity ratios on a daily basis in accordance with the CBR requirements. These ratios include instant liquidity, current liquidity and long-term liquidity ratios.

CBM meets a significant portion of its funding requirements using deposits by customers, which increased from RUB334,852 million as at 31 December 2014 to RUB689,496 million as at 31 December 2016. As at 31 December 2016, RUB41,300 million, or 9.4% of CBM's total deposits by corporate customers, had a maturity classified as current accounts. See also "*- The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition*". Despite holding liquidity reserves in excess of the regulatory minimum, unanticipated decreases in corporate customer deposits or unexpected withdrawals of retail deposits may result in liquidity gaps that CBM may not be able to cover without incurring additional expenses, if at all. As part of its current strategy in response to the uncertain economic environment in Russia, CBM increased the share of liquid assets with lower interest rates (such as debt securities) in its portfolio in light of its conservative approach to liquidity management. The liquidity gap may affect the ability of CBM to carry out its strategy effectively. This could lead to a material adverse effect on CBM's business, financial condition, results of operations and prospects.

A portion of CBM's deposits by customers are from the retail segment. As at 31 December 2016, deposits by individuals represented 36.1% of CBM's total deposits by customers. The Russian Civil Code entitles retail depositors to withdraw deposits, including term deposits, at any time. The withdrawal of these retail deposits may impact the ability of CBM to meet its funding requirements.

The remainder of CBM's funding is raised in the domestic and international capital, syndicated loan and interbank markets. CBM's ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs could be adversely affected by a number of factors, including in particular any further deterioration in Russian and international economic conditions and the state of the Russian financial and market systems.

As at 31 December 2016, the Group had a cumulative liquidity gap between assets and liabilities that mature from three to six months of RUB80,843 million, from six to nine months of RUB42,549 million and from nine months to one year of RUB74,058 million. If the sources of short and, in particular, long-term funding, including from the CBR, the Russian Government, the international capital markets, inter-bank lending markets or CBM's shareholders, are not available, or if maturity mismatches between CBM's assets and liabilities occur, particularly, in light of a shortage of liquidity due to unfavourable economic conditions, this could lead to a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's business and operations are subject to market risks, including currency risk, interest rate risk and securities portfolio risk

Assets and liabilities of CBM are denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. CBM plans to continue to access the international capital markets and syndicated loan markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. In order to better balance the foreign currency structure of its assets and liabilities, CBM extends foreign currency loans to customers that are engaged in businesses with foreign currency components. As at 31 December 2016, 74.8% of CBM's loans to customers were denominated in Roubles, 23.3% in U.S. dollars and the remaining 1.9% in other currencies. Although CBM uses currency forwards to hedge its foreign currency exposure, volatility in the money market and significant exchange rate fluctuations may have a material adverse effect on CBM's business and financial condition. CBM's foreign currency position is controlled by the Financial Division, which reports to the Chief Financial Officer. The established limits and approved transactions are implemented by the Treasury Department, which is part of the Risk Management Directorate. CBM has established an internal limit on its open foreign currency position of 5% of CBM's capital.

CBM faces interest rate risk resulting from movements in interest rates that affect income or the value of financial instruments. Although CBM monitors interest rate fluctuations and its asset liability tenor in order to mitigate such interest rate risk, interest rate movements on both domestic and international markets may have a material adverse effect on CBM's business and financial condition.

The securities portfolio risk arises from fluctuations of value of financial instruments as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument. For the year ended 31 December 2016, CBM had a net gain on financial instruments at fair value through profit or loss of RUB234.8 million as compared to a net gain on financial instruments at fair value through profit or loss of RUB1,201.6 million for the year ended 31 December 2015 and a net loss on financial instruments at fair value through profit or loss of RUB2,109.6 million for the year ended 31 December 2014. CBM has established various limits on operations with securities, including instrument specific limits and limits on the activities of individual traders, in order to balance profit and risk in its portfolio. However, interest rate and price movements on both domestic and international markets may have a material adverse effect on the value of CBM's securities portfolio, which in turn may have a material adverse effect on CBM's overall business, financial condition, results of operations and prospects.

Devaluation of the Rouble against the U.S. dollar and other currencies, as well as general currency fluctuations or volatility, may have a material adverse effect on CBM's business

The Group maintains a conservative strategy of managing currency risk in compliance with the regulatory requirements of the CBR. Regulatory and internal open currency positions, as well as stop loss limits that are created in the ordinary course of the Group's business are principal risk management instruments with regard to currency risks. The positions and limits are constantly monitored and managed, yet certain exposures may still create currency risk.

The RUB/U.S.\$ exchange rate fluctuated significantly in 2013-2016 ranging from RUB29.93 per U.S.\$1.00 to RUB72.88 per U.S.\$1.00.

In the year ended 31 December 2016, CBM's net foreign exchange gains amounted to RUB6,065.2 million as compared to net foreign exchange gains of RUB2,742.8 million in the year ended 31 December 2015 and net foreign exchange losses of RUB2,485.7 million in the year ended 31 December 2014. The net foreign exchange gains for 2016 and 2015 were mainly due to income generated from swap contracts, as well as from currency conversion operations conducted by CBM on

behalf of its customers. The foreign exchange gains or losses were one of the items that positively or negatively impacted CBM's operating income in the periods under review. The currency composition of CBM's assets and liabilities has changed from 74.7% of total assets and 70.6% of total liabilities (RUB-denominated) as at 31 December 2014 to 48.0% of total assets and 45.1% of total liabilities (RUB-denominated) as at 31 December 2015 and 50.1% of total assets and 56.3% of total liabilities (RUB-denominated) as at 31 December 2016. Although CBM was successful in managing the exchange rate risk in the past, there is no guarantee that it will be successful in avoiding the effects of exchange rate fluctuations in the future, which could have a material adverse effect on CBM's business, financial condition, results of operations or prospects.

Any depreciation of the Rouble against the U.S. dollar and other currencies, as well as general currency fluctuations or volatility, could negatively affect CBM in a number of ways, including, among other things, by increasing the actual cost to CBM of financing its U.S. dollar based liabilities and by making it more difficult for Russian borrowers to service their U.S. dollar loans. Volatility in the Russian currency market may have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's development is subject to successful integration of acquired financial institutions

In 2015-2016, CBM acquired INKAKHRAN, a group of companies, which provide a full range of cash handling services for financial institutions and private commercial companies, and Bank "Savings and credit service" (LLC) ("**SKS Bank**"), a Russian bank that CBM intends to use as a platform for expanding investment banking services to its clients. There can be no assurance that CBM will be able to fully or effectively integrate business operations of acquired entities. CBM strives to achieve revenue and cost synergies, operating efficiencies, business growth opportunities, as well as other benefits from any acquisition. The integration of any such acquisition, however, may be complex and expensive and may present a number of challenges for management. In addition, expected business growth opportunities, revenue and cost synergies, operational efficiencies and other benefits may not materialise, in part because the assumptions upon which CBM determined to proceed with any such acquisition may prove to be incorrect. As a result, if anticipated synergies or other benefits of an acquisition are not achieved, or those achieved are materially different from those that were expected to be achieved prior to the acquisition, then this could have a material adverse effect on CBM's business, financial condition, results of operations or prospects.

A failure to comply with capital adequacy requirements or deterioration in CBM's capital position may adversely affect CBM's business

CBM's business depends on the availability of adequate capital, both for compliance with applicable capital adequacy requirements, as well as for the effective conduct of its business.

Under the CBR regulations, CBM is required to comply with a number of mandatory ratios. The CBR Instruction No. 139-I "On Banks' Mandatory Economic Ratios" dated 3 December 2012 provides that capital adequacy ratios consisting of common equity tier 1 capital adequacy ratio (N1.1), tier 1 capital adequacy ratio (N1.2) and the total capital adequacy ratio (N1.0) (previously, N1 ratio) must be at least 4.5%, 6.0% and 8.0%, respectively, calculated on the basis of RAS. If a bank's capital adequacy ratios were to fall below the minimum levels, the CBR could impose various sanctions or, in the event of repeated violations, revoke such bank's banking licence. As of 1 March 2017, CBM's common equity tier 1 capital adequacy ratio (N1.1), tier 1 capital adequacy ratio (N1.2) and the total capital adequacy ratio (N1.0) were 7.60, 7.60 and 13.19, respectively. The CBR may amend the capital adequacy requirement, increase the capital adequacy ratios at any point or introduce additional capital requirements for systemically important credit institutions and, in such circumstances, CBM would be forced to seek additional capital or alternative sources of financing to comply with these requirements, which may not be available or may only be available at commercially unsustainable prices. The shareholders of CBM are under no obligation to inject additional capital into CBM, and there can be

no assurance that the shareholders will be willing or able to provide required capital and funding support to CBM in the future.

The Basel Committee on Banking Supervision (the “**Basel Committee**”) recommends a minimum risk-based total capital adequacy ratio of 8%, calculated in accordance with the International Convergence of Capital Measurement and Capital Standards of 1988 and amendment to incorporate market risks in November 2005 (“**Basel I**”). In recent years, the CBR, in cooperation with Russian banks, started preparing for the implementation of international standards for capital adequacy of credit organisations under “Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework”, as issued by the Basel Committee (“**Basel II**”), as well as “International Regulatory Framework for Banks (“**Basel III**”).

On 1 March 2013, Regulation No. 395-P “On the Methodology of Calculation of Value and Adequacy of Capital of Credit Organisations (Basel III)” of the CBR implementing Basel III principles with respect to the composition and assessment of sufficiency of bank regulatory capital (“**Regulation No. 395-P**”) entered into force in Russia. The new regulatory capital requirements provided by Regulation No. 395-P are being phased in gradually starting from 1 January 2014 until 1 January 2018. CBM’s management believes that the impact of new regulatory capital requirements on CBM’s capital adequacy ratios has so far been insignificant, but there can be no assurance that full implementation of Regulation No. 395-P will not have a material adverse effect on CBM’s financial results and capital ratios, which means that CBM might be forced to either raise additional capital or reduce the amount of its lending.

CBM’s total capital ratio, calculated in accordance with Basel III and based on IFRS data, amounted to 14.7%, 16.5% and 15.8% as at 31 December 2016, 2015 and 2014, respectively, and CBM’s core tier 1 capital ratio and tier 1 capital ratio were 9.4%, 9.2% and 10.5% as at 31 December 2016, 2015 and 2014, respectively. These ratios are calculated in accordance with the requirements of Basel III, as adopted in Russian Federation.

If CBM is unable to raise further capital when required to support its growth or if its capital position otherwise declines, its ability to implement its business strategy, and its proposed lending expansion, may be materially and adversely affected. CBM’s ability to obtain additional capital may be restricted by a number of factors, including its future financial condition, results of operations and cash flows, shareholder approvals, any necessary government regulatory approvals, and general market conditions for capital raising activities by commercial banks and other financial institutions.

CBM’s measures to prevent money laundering or terrorist financing may not be completely effective

CBM complies with applicable anti-money laundering and anti-terrorist financing laws and regulations. CBM’s anti-money laundering measures are based on the relevant Russian laws. In particular, Russian anti-money laundering laws contain numerous requirements with respect to identification of clients, as well as documentation and reporting to the relevant authorities of transactions subject to mandatory control and other suspicious transactions. CBM has procedures and documents aimed at preventing money laundering and financing of terrorist activities, including a general anti-money laundering policy, internal control procedures that include a refusal policy whereby CBM refuses to conduct business with suspicious entities or individuals and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the Federal Service for Financial Monitoring of the Russian Federation.

CBM has not been subject to any investigation with respect to its involvement in money laundering or terrorist financing. However, there can be no assurance that third parties will not attempt to use CBM as a conduit for money laundering or terrorist financing without CBM’s knowledge, nor that the measures described above will be completely effective. If CBM fails to comply with anti-money

laundering or anti-terrorism financing laws or if it is otherwise associated with money laundering or terrorist financing, this could have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.

CBM's risk management strategies and procedures may leave it exposed to unidentified and unanticipated risks

Although CBM invests substantial time and effort in its risk management strategies and procedures, such strategies and procedures for risk management may nevertheless fail under certain circumstances, particularly when confronted with risks that it has not identified or anticipated. Some of CBM's risk management methods are based upon observations of historical market behaviour. CBM applies statistical techniques to these observations to arrive at quantifications of its market risk exposures. Moreover, in developing its statistical models, CBM may not identify or anticipate some circumstances and quantifications and may not take all risks into account. If CBM's measures to assess and mitigate risks prove insufficient, its losses may be greater than expected and this could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM is a highly regulated entity

CBM is subject to strict regulation in the Russian Federation by governmental organisations, particularly the CBR. The requirements, including capital adequacy requirements, imposed by the CBR are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom CBM deals. These requirements are not designed to protect holders of the Notes and may limit CBM's activities and increase its costs of doing business. A breach of regulatory guidelines could expose CBM to potential liability and other sanctions, including the loss of its general banking licence. If the CBR was to suspend or revoke CBM's general banking licence, then this would render CBM unable to perform any banking operations (including processing payments of its customers) and/or would lead to winding-up of its business (whether by way of bankruptcy proceedings or liquidation).

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and the regulatory structure governing CBM's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. If the existing interpretation of the regulations changed or future regulations were imposed on CBM, it could have an adverse effect on its business. While CBM has in the past complied with applicable regulations in all material respects, there is no assurance that it will always be successful in doing so in the future. Certain failures on the part of CBM to comply with such regulations could result in the withdrawal of a banking licence issued by the CBR, which would have a material adverse effect on its prospects.

CBM's business entails operational risks, including failures to adhere to compliance procedures by CBM's employees

CBM is exposed to several types of operational risk, including unauthorised transactions by employees or operational errors, including clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that CBM will be used for money laundering and financing of terrorist activities. Given CBM's high transaction volume and developing IT systems, errors may be repeated or compounded before they are discovered and rectified. CBM maintains a system of controls designed to keep operational risk at appropriate levels. However, there can be no assurance that CBM will not suffer losses from failure of these controls to detect or contain operational risk in the future.

CBM's ability to operate its business depends on its ability to protect the computer systems and databases which CBM operates and uses from the intrusion of third parties who may attempt to gain access to CBM's computer systems, networks or databases through the Internet or otherwise.

Although CBM believes that its computer systems, networks and databases are well protected from unauthorised intrusion by a range of both physical and programming measures, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future.

CBM runs the risk that its employees will not adhere to its compliance procedures and limits on risk related activities. CBM takes various precautions to prevent and detect misconduct; however, these may not be effective in all cases. Misconduct by existing employees could include binding CBM to transactions that exceed authorised limits or present unacceptable risks, or concealing unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information that could result in regulatory and legal sanctions and significant reputational or financial harm which could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM may face counterparty risk from other financial institutions

Financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom CBM interacts on a daily basis, all of which could have an adverse effect on CBM's ability to raise new funding. CBM routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers and commercial banks, resulting in a significant credit concentration. As a result, CBM is exposed to a counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of one or more financial service institutions could lead to further significant systematic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect CBM's business, financial condition, results of operations and prospects.

CBM may lack sufficient insurance coverage

While Russian banking and other laws do not require banks to maintain a variety of insurance on their material assets or liabilities, other than the mandatory insurance of retail deposits, CBM voluntarily insures its property and operating assets at levels that are in line with the standard in the Russian market. In addition, CBM complies with the insurance covenants in its financing arrangements with international financial institutions, such as the EBRD, IFC and the Black Sea Trade and Development Bank (the "**BSTDB**"). CBM's insurance includes a bankers blanket bond ("**BBB**") policy which contains coverage for valuables, property insurance and damage policies, a third-party liability policy, a general liability policy and bank card issuers insurance policy. The general liability policy, among other things, protects against unlawful acts of employees, loss of property, loss from fraud transaction with payments, securities and false bank notes. See "*Business – Insurance*". However, CBM's insurance does not cover all of CBM's assets and liabilities. The Russian insurance industry is less developed than that in more economically developed countries, with some insurance products being unavailable to CBM on the terms common in such economically developed countries, including insurance coverage for business interruption. CBM may incur uninsured losses of assets and face claims not covered or inadequately covered by such insurance. Any such losses or claims could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's IT systems may malfunction or be insufficient to support future business expansion

CBM's business is dependent on the uninterrupted, proper functioning of its IT systems and the ability to increase their capacity to support CBM's business expansion and to support new products and services to support CBM's growth and achievement of its strategy. CBM has invested in upgrading its

technologies, centralising its information systems and controlling the operation of its hardware and software, taking into account international best practices. However, CBM cannot provide any assurance that its IT systems will continue to function in a manner that will not result in significant disruptions or temporary loss of functionality, and the possibility of a systems failure that may adversely affect its operational activities and lead to expenses that may adversely affect its financial performance cannot be eliminated. A failure of CBM's IT systems to adequately support its operations and enable it to monitor and manage its operations effectively could result in a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM may face difficulties in recruiting and retaining experienced personnel

CBM's ability to continue to attract, retain and motivate qualified and experienced personnel is key in implementing its strategy. Competition in the Russian banking industry for personnel with relevant expertise is intense due to the relatively small number of available qualified individuals. Further increases in competition may lead to difficulties in recruiting qualified and experienced employees, including increased costs of recruitment, or a greater length of time taken to identify and recruit such employees and difficulties in retaining qualified and experienced employees, including increased costs of salaries and bonuses. In order to attract and recruit qualified and experienced employees and to minimise the possibility of their departure to other banks, CBM provides packages of compensation and non-financial incentives that are consistent with evolving standards in the Russian labour market. Any inability by CBM to retain, manage or recruit qualified personnel in sufficient numbers could have a material adverse effect on CBM's business, financial condition, results of operations and prospects, and may impair CBM's ability to achieve its strategic objectives.

Risks Relating to the Russian Federation

Substantially all of the Group's assets are located in Russia, which is an emerging market. Investors in emerging markets should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant economic, political, social and legal risks. Investors should also note that emerging economies, such as Russia, are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

Emerging markets are subject to different risks as compared to more developed markets

Emerging markets such as Russia are subject to different risks as compared to more developed markets, including, in some cases, increased political, economic and legal risks. Emerging market governments and judiciaries often exercise broad, unchecked discretion and are susceptible to abuse and corruption. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Emerging markets such as the Russian Federation are subject to rapid change, and the information set out herein may become quickly outdated.

Moreover, financial turmoil in any emerging market country tends to adversely affect the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect its economy. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn.

Investments in Russia may be adversely affected by fluctuations in the global economy

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of oil, natural gas, metal products and other commodities, the Russian economy is especially sensitive to commodity prices on the world markets. The sharp decrease in prices for natural resources in 2008 and 2014-2016 resulted

in a significant decrease in revenues of the Russian Government, which had a negative effect on the Russian economy. Commodity prices continue to be volatile and future fluctuations in the global markets could substantially limit CBM's access to capital and could adversely affect the financial condition of CBM's customers, which could result in increased loan losses to CBM as a consequence of, among other things, decreased corporate deposits from these customers, a reduction in the volume of foreign currency held and/or foreign trade operations engaged in by these customers, decreases in the value of collateral (including immovable property, land, equipment, intangibles and machinery) underlying the obligations of these customers and defaults by these customers on their obligations. These developments could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

Political risks could adversely affect the value of investments in the Russian Federation

While the political situation in the Russian Federation has been relatively stable since 2000, future policy and regulation may be less predictable than in less volatile markets. The next presidential elections in Russia are scheduled for March 2018. Any future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity. In addition, any change in the Russian Government or its programme of reform or lack of consensus between the Russian President, the Prime Minister, the Russian Government, the Parliament and powerful economic groups could lead to political instability and a deterioration in Russia's investment climate that might limit the ability of CBM to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

According to some commentators, politically motivated actions, including claims brought by the Russian authorities against several major Russian companies, have called into question the security of property and contractual rights, progress of the market and political reforms, the independence of the judiciary and the certainty of legislation. This has, in turn, resulted in significant fluctuations in the market price of Russian securities and had a negative impact on foreign investments in the Russian economy, over and above the general market turmoil recently. Any similar actions by the Russian authorities which result in a further negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities, including the Notes.

Russia is a federative state consisting of 85 constituent entities, or "subjects". The Russian Constitution reserves some governmental powers for the Russian Government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" (*"federal'nye okruga"*), which are overseen by a plenipotentiary representative of the President, supplement the country's federal system. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. Subjects have enacted conflicting laws in areas such as privatisation, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, subject and local authorities. This tension creates uncertainties in the operating environment in Russia, which may prevent businesses from carrying out their strategy effectively.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Moreover, various acts of terrorism have been committed within the Russian Federation. The risks associated with these events or potential events could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the Russian Federation, which in turn could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

Economic risks could adversely affect the value of investments in Russia

The Russian economy has been subject to abrupt downturns in the past. In addition, as Russia produces and exports large quantities of crude oil, natural gas, metal products and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of commodities on the world market.

The Russian economy and banking sector in particular faced a number of serious challenges in 2014 and 2015. Starting from July 2014 to the end of 2015, oil prices decreased by more than half, which caused a shock to the Russian economy due to the deterioration in trade conditions for Russia and the Rouble depreciated sharply against the U.S. dollar. This in turn had a negative impact on the already weakening consumer confidence. The cost of credit increased as a result of actions of the CBR to tighten the monetary policy, which resulted in further freezing of lending and a reduction of bank margins. In addition, the geopolitical tensions that began in March 2014 with respect to Ukraine led to economic sanctions adopted against Russia by, among others, the EU and the U.S. Against the background of this tension, investors have become more cautious in investing in Russia and the cost of foreign loans for Russian banks and companies rose significantly. These negative developments continued to affect the Russian economy in 2016, aggravated by the impact of the current political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU, as well as a sharp decrease in oil prices and dramatic depreciation of the Rouble against the U.S. dollar.

Social risks could adversely affect the value of investments in the Russian Federation

Emerging markets such as the Russian Federation are prone to social risks and increased lawlessness. High levels of corruption reportedly exist in Russia, including the bribing of officials for the purpose of initiating investigations by government agencies. For example, should CBM enter into legal proceedings to recover a bad debt, such debtor may engage in illegal measures, including corruption, to obstruct proceedings in relation to such claim. Whilst CBM's internal monitoring of operational risks, and "know your customer" procedures are designed to recognise suspicious and illegal activity, there can be no assurance that corruption or other illegal activity will not affect CBM's business in the future. Corruption and other illegal activities could disrupt CBM's ability to conduct its business effectively, and claims that CBM was involved in such corruption or illegal activities could generate negative publicity, either of which could harm CBM's business.

In addition, rising unemployment, forced unpaid leave, wages in arrears and weakening economies have in some cases in the past led to and could in the future lead again to labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. Such labour and social unrest could disrupt ordinary business operations, which also could materially adversely affect CBM's business, financial condition, results of operations and prospects.

If the Russian Federation were to return to heavy and sustained inflation, the CBM's results of operations could be adversely affected

During the period 2012-2016, the consumer price index in the Russian Federation measured by Rosstat was 6.6% in 2012, 6.5% in 2013, 11.4% in 2014, 12.9% in 2015 and 5.4% in 2016. A return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any of these events could lead to decreased demand for CBM's products and services and have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

The current political instability relating to Ukraine and related sanctions imposed by the U.S. and the EU may have a material adverse effect on CBM

In late 2013 and the first half of 2014, deteriorating economic conditions and general social unrest caused Ukraine to be subjected to a wide-scale crisis provoking armed confrontations between various political groups. Amid concerns of possible civil war and alleged discrimination of ethnic Russians in predominately Russian regions, such as the Crimean peninsula and south-eastern parts of continental Ukraine, on 1 March 2014, the Russian Parliament officially authorised the use of Russian military force in Ukraine. Following a public referendum on 18 March 2014, the Crimean peninsula and the city of Sevastopol, the historic base of the Russian Black Sea Fleet, became new separate constituents of the Russian Federation.

In response to the perceived role of the Russian Federation in events in Ukraine and Crimea, the U.S. and the EU (as well as other nations, such as Canada, Switzerland, Australia and Japan) imposed sanctions on certain Russian and Ukrainian persons and entities. A number of Russian government officials, entrepreneurs, banks and companies, as well as companies owned or controlled by such persons or entities or certain entities that provide assistance to prohibited actions by such entities or persons have been subject to blocking sanctions. The sanctions impose a freeze on all assets of the blocked persons and broadly prohibit transactions or other dealings (including the provision of services) for the benefit of the sanctioned persons, in each case involving U.S. persons or legal entities or any direct or indirect action within the United States (including the clearing of U.S. dollar payments through the U.S. financial system).

Furthermore, the EU and U.S. have imposed sanctions on entities operating in certain sectors of the Russian economy, in particular in financial, oil and gas, defense and related materials sectors. With respect to the financial sector, the EU and U.S. imposed prohibitions on transactions by EU and U.S. persons or within the EU or U.S. with respect to transacting in, providing financing for, or otherwise dealing in debt with a maturity of longer than 30 days or equity, if that debt or equity is issued on or after prescribed dates by, or on behalf of, or for the benefit of named persons, their property, or their interests in property. These prohibitions were applied to transactions with Vnesheconombank (VEB), Gazprombank, Bank of Moscow, Sberbank, Rosselkhozbank and VTB in financial sector, Novatek, Rosneft, Transneft and Gazprom Neft in the oil and gas sector and Rostec in defense and related materials sectors. Moreover, the EU and U.S. prohibited the provision, exportation, or re-exportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation and involve any named person in the Russian energy sector, its property, or its interests in property. These persons in the oil and gas sector include Gazprom, Gazprom Neft, Lukoil, Surgutneftegas and Rosneft. Further, on 1 September 2016, the U.S. expanded the list of Russian companies and individuals placed under the sanctions regime. It is currently unclear how long these sanctions will remain in place and whether new sanctions may be imposed.

No individual or any of CBM's subsidiaries has been designated by either the U.S. or the EU as a specific target of their respective sanctions imposed in connection with the Ukraine crisis. However, no assurance can be given that any of those persons or entities will not be so designated in the future, or broader sanctions against Russia that affect CBM, may not be imposed. Although none of CBM's subsidiaries is a U.S. person, some entities, as well as the Issuer, are EU persons and are therefore required to comply with the EU sanctions, including not conducting business with any sanctioned persons. None of the proceeds of the issue of the Notes will be used to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU. As many other Russian banks and credit institutions, in the ordinary course of business CBM transacts with Vnesheconombank (VEB), Gazprombank, Sberbank and VTB, which are CBM's correspondent bank counterparties. All transactions with these financial institutions are reviewed for sanctions compliance purposes. The prevailing part of transactions with these banks are Rouble transfers limited to the territory of the Russian Federation, thus, are permissible pursuant to applicable law.

Other subsidiaries of CBM are neither U.S. persons nor EU persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to U.S. and/or EU jurisdiction, such as through the involvement of U.S. and/or EU persons or entities, business conducted on the territory of the U.S. or EU, clearing in U.S. dollars, or some other nexus to the relevant jurisdiction. However, there can be no assurance that compliance issues under applicable U.S. and/or EU regulation, measures or similar laws and regulations will not arise with respect to CBM or its personnel. Non-compliance with applicable sanctions could result in, among other things, the inability of the relevant subsidiaries of CBM to contract with the U.S. and/or EU governments or their agencies, civil or criminal liability of such entities and/or their personnel under U.S. and/or EU law, the imposition of significant fines and negative publicity and reputational damage. In addition, should CBM's dealings with sanctioned counterparties become material, CBM's ability to transact with U.S. or EU persons could be affected, even though such dealings would comply with applicable law. As a result, the ability of subsidiaries of CBM to raise funding from international financial institutions or the international capital markets may be inhibited.

The sanctions imposed by the U.S. and the EU in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which CBM is exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the U.S. and certain EU member states, as well as certain EU officials have indicated that they may consider additional sanctions should tensions in Ukraine continue.

Further confrontation in Ukraine and any escalation of related tensions between Russia and the U.S. and/or the EU, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy, particularly levels of disposable income, consumer spending and consumer confidence, as well as the ability of Russian banks, including CBM and its Russian clients, to sustain required liquidity levels and comply with their financial obligations. These impacts could be more severe than those experienced to date. In particular, should either the U.S. or the EU expand their respective sanctions to include existing or future clients, suppliers or other counterparties of CBM, a large sector of the Russian economy or otherwise, such an expansion could result in CBM's dealings with designated persons, if any, being materially adversely impacted, the suspension or potential curtailment of business operations between CBM and the designated persons could occur, and substantial legal and other compliance costs and risks on CBM's business operations could emerge. All of the above could have a material adverse impact on CBM's business, financial condition, results of operations or prospects.

Although CBM has no reason to believe that it may be specifically targeted by the U.S. or EU sanctions, if sanctions targeting the Russian banking sector generally or CBM specifically are imposed, such sanctions will likely have a material adverse impact on CBM in a number of ways. For example, CBM's ability to use international payment networks (such as those administered by Visa and MasterCard) could be impaired, CBM might become unable to deal with persons or entities bound by the relevant sanctions, including financial institutions and rating agencies, transact in U.S. dollars, raise funds from investors, or access international capital markets generally, use international settlement, clearing and/or information exchange systems, and/or CBM's existing funds might be blocked. In these circumstances, CBM could well be unable to effect payments to discharge any of its obligations under the Subordinated Loan, which would constitute an Acceleration Event thereunder and a Relevant Event under the Notes consequently. In addition, investors in possession or control of the Notes, who are subject to the jurisdiction of any relevant sanctions regimes may be required to block those Notes and may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to the Notes, which could make such Notes partially or completely illiquid and have a material adverse effect on their market value.

Furthermore, any potential conflicts with other countries and the risks associated with these events could materially and adversely affect the investment environment in Russia. For example, the Ukraine crisis has also resulted in the deterioration of Russia's relations with other countries, including members of the EU and U.S. The emergence of new or an escalation of existing tensions between Russia and other countries could negatively affect economies in the region, including the Russian economy, and could have a material adverse effect on CBM's business, financial condition and results of operations and may lead to reduced liquidity, trading volatility and a negative effect on CBM's ability to raise debt or equity capital in the international capital markets.

Risks Relating to the Russian Legal System and Legislation

Legal risks could affect the value of investments in the Russian Federation

The Russian Federation is still developing the legal framework required by a market economy. Business activities are subject to the rules of federal laws and decrees, orders and regulations issued by the President, the Russian Government, the federal ministries and regulatory authorities, which are, in turn, complemented by regional and local rules and regulations. These legal norms at times overlap or contradict one another. Several fundamental Russian laws have only become effective within the past five to ten years, and many have recently been amended. The relatively recent nature of much of Russian law and the rapid evolution of the Russian legal system may result in ambiguities and inconsistencies in the enactment of laws and ultimately may result in investment risks that do not exist in more developed legal systems.

Among the risks of the Russian legal system are: inconsistencies among laws, presidential decrees, and government and ministerial orders and resolutions; conflicting local, regional and federal laws and regulations; the untested nature of the independence of the judiciary and its sensitivity to economic or political influences; substantial gaps in the regulatory structure due to the delay or absence of implementing legislation; a high degree of discretion on the part of governmental authorities; reported corruption within governmental authorities; the relative inexperience of judges and courts in interpreting laws applicable to complex transactions; and the unpredictability of enforcement of foreign judgments and foreign arbitral awards. Many Russian laws and regulations are construed in a way that provides for significant administrative discretion in application and enforcement. All of these weaknesses could adversely affect the value of investments in the Russian Federation.

The independence of the Russian judiciary and its immunity from economic and political influences remains questionable. The Russian court system is understaffed and underfunded. Judges and courts are generally inexperienced in business and corporate law. The Russian Federation is a civil law jurisdiction where judicial precedents generally have no binding effect on subsequent decisions. Many court decisions are not readily available to the public. The Russian judiciary can be slow or unjustifiably swift, and enforcement of court orders can be very difficult. Moreover, parties often use legal claims in furtherance of political objectives. The Russian Government may attempt to invalidate court decisions by retroactively applying relevant legislative changes. All of these factors make judicial decisions in the Russian Federation unpredictable and effective redress uncertain.

The uncertainties also extend to property rights. During its transition from a centrally planned to a market economy, the Russian Federation has enacted laws to protect private property against expropriation and nationalisation. However, due to lack of experience in enforcing these provisions and political pressure, Russian courts might not enforce these protections in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of CBM's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

It may be difficult for CBM to enforce security and sureties under Russian law

CBM enters into security and surety arrangements that cover, in whole or in part, a substantial portion of its loans to legal entities and individuals. Under Russian law, security (which includes pledges and mortgages) and sureties (other than guarantees) are considered secondary obligations, which automatically terminate if the underlying obligation becomes void. Furthermore, enforcement of security under Russian law generally requires either an agreement of the parties for an out of court enforcement procedure (which is subject to certain requirements) or in certain cases a court order followed by a public sale of the collateral. In some cases, a court may delay such public sale for a period of up to one year upon a pledgor's application. A mortgage is a pledge over real property, such as land and buildings, which requires state registration to be valid. Russian law has no system for perfecting collateral other than mortgages and pledges of equity in Russian joint-stock and limited liability companies, which may lead to unexpected or conflicting claims by secured creditors over such collateral. Each of these risks could adversely affect CBM's business.

In 2014, the amendments into the Russian Civil Code became effective. They, among other things, introduced procedures for registration of pledges of movable property, including property rights, however, the impact that these measures will have in practice is not currently clear. While these law amendments are generally positive for protecting the rights of secured lenders, their application and enforcement in practice is yet to be tested.

A substantial portion of CBM's loans to its corporate and retail customers is supported by sureties from individuals and other corporate customers. In addition, a certain portion of CBM's loans to corporate customers is assured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts over which CBM has direct debit rights. However, if the surety's financial condition deteriorates or if the borrower does not honour an assurance arrangement (under Russian law, a borrower is entitled to close its bank account with a Russian bank at any time), CBM may not be able to recover on sureties or assurance arrangements which may lead to losses, materially adversely affecting its business, financial condition, results of operations and prospects.

Russian banking and financial regulation has been undergoing significant changes

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity were adopted in the 1990s and early 2000s. In addition to Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" dated 10 July 2002, as amended (the "**CBR Law**"), Federal Law No. 395-I "On Banks and Banking Activity" dated 2 December 1990, as amended (the "**Banking Law**"), and Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Securities Market Law**"), the Russian Federation has adopted and continues to develop new banking and financial market legislation. Significant recent changes in Russian banking regulation include the development by the CBR of regulations on bank capital and bringing them in line with international standards, including Basel III requirements, as well as tightening the rules on consumer protection in banking businesses. In addition, various measures have been introduced that are aimed at increasing the efficiency of banking supervision in line with international standards through, among other things, introducing supervision on a consolidated basis and improving response actions which may be taken by the CBR and procedures for their application. See "*Banking Sector and Banking Regulation in Russia – Role of the CBR*" and "*Banking Sector and Banking Regulation in Russia – Regulation of Capital*".

As part of the reform to Russian civil legislation, large-scale amendments to the Civil Code have been adopted. These amendments significantly revise certain basic concepts and rules of Russian civil legislation. Although the amendments generally aim to clarify and streamline the existing rules and institutions, their implementation may create uncertainties in the Russian legal requirement for business activities and investments, and their potential interpretation by Russian state authorities, including courts, as well as their impact on CBM's activities, is not always clear. Further, in July 2014, the Consumer Lending Law became effective, which introduced additional requirements and

obligations on banks with respect to consumer lending to individual borrowers for non-commercial purposes. See “*Banking Sector and Banking Regulation in Russia – Financial Consumer Protection*”.

The recent changes in the Russian banking and financial market regulation are aimed at bringing the regime more in line with that of more developed countries. However, because of these changes, banks operate in a new and relatively unclear regulatory environment. Although CBM believes that it conducts its business in compliance with the applicable laws and regulations, no assurance can be given that its actions will not be challenged by the relevant authorities and held illegal. Further, it is difficult to forecast how the changes in the banking and financial market regulation will affect the Russian banking system and the Russian securities market, and no assurance can be given that the regulatory system will not change in a way that will increase CBM’s expenses or impair CBM’s ability to provide a full range of banking services or to compete effectively, thus adversely affecting CBM’s credit ratings, business, financial condition, results of operations and prospects.

Other Risks

Publicly available data may be unreliable

CBM has derived substantially all of the information contained in this Prospectus concerning its competitors and market share from publicly available information and has relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies and the CBR. Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. The veracity of some official data released by the Russian Government may be inaccurate. Official statistics, including those produced by the CBR, may also be produced to a different standard than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to the potential inaccuracy of available official and public information.

Risks factors relating to Russian taxation

Changes in Russian tax law could adversely affect CBM’s business

Generally, Russian taxes that CBM is subject to are substantial and include, among others: income tax, value added tax, property tax, payroll related insurance payments and other taxes. CBM as well is subject to duties and corresponding liabilities of a tax agent with respect to taxes due from some of its counterparties. Laws related to these taxes and duties, such as the Tax Code of the Russian Federation (the “**Tax Code**”), have been in force for a relatively short period of time in comparison with tax legislation in more developed market economies, and the Russian government’s implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continuous changes being introduced into existing laws and the interpretation thereof.

Although the Russian tax climate and the quality of tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that the Russian Federation may impose arbitrary and/or onerous taxes and penalties in the future. Russia’s inefficient tax collection system increases the likelihood of such events, which could adversely affect CBM’s business.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and, in addition, some of the sections of the Tax Code are comparatively new, interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these tax laws and regulations in practice.

Furthermore, the taxpayers, the Ministry of Finance and the Russian tax authorities often interpret tax laws differently. There can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance to specific taxpayers' queries. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period several times. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the financial industry.

As taxpayers and the Russian tax authorities often interpret tax laws differently, taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory. Clarifications of the Russian tax authorities and the Ministry of Finance in practice may be revised by courts in a way that is unfavourable for the taxpayer.

The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterised by inconsistent judgment of local tax authorities and the failure by Russian tax authorities to address many of the existing problems. It is, therefore, possible that transactions and activities of CBM that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects and the trading price of the Notes.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the "**Supreme Arbitration Court**") issued Resolution No. 53, which formulated a concept of an "unjustified tax benefit". This concept is defined mainly by reference to circumstances such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the re-characterisation of the transaction for tax purposes. To date, there is a growing practice on the interpretation of this concept by the Russian tax authorities and the courts, and it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of Resolution No. 53 was to combat the abuse of tax law, it can be seen from the cases relating to Resolution No. 53 that have been brought to courts that the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader manner than may have been intended by the Supreme Arbitration Court. Importantly, there are cases that were negative for the taxpayers where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties.

Current Russian tax legislation is generally based upon the formal way in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance over form" approach, which may cause additional tax exposures to arise in the future.

Recently, Russian tax policy has focused on curtailing Russian businesses from using foreign companies mostly or only for tax reasons and Russia has introduced policies to allow Russian tax authorities to tax foreign income attributable to Russian companies.

In the framework of such policies the provisions of Federal Law N 376-FZ dated 24 November 2014 "On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organizations)" and follow up amendments to this law (Federal Law) are the result of the joint work undertaken by the Ministry of Finance and the Russian Government to implement measures previously announced under the Russian Government's action plan to counteract the "offshorization" of the Russian economy.

The main provisions of the Federal Law cover rules governing the taxation of “controlled foreign companies” (without limitation of jurisdictions to which this definition applies which residents may fall under), determination of the tax residency status of legal entities, definition of “beneficial owner” and taxation of capital gains derived from the sale of shares in real estate rich companies (more than 50% of the value of the assets of which directly or indirectly consists of real estate located in Russia).

Changes proposed by the Federal Law came into force on 1 January 2015 and imposed significant limitations on tax planning. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on operations in Russia and abroad, and the application of the abovementioned rules may result in the imposition of fines, penalties and enforcement measures, which could have a material adverse effect on the business, financial condition and results of operations of CBM.

The Federal Law provides for exemption of foreign companies which act as issuers of traded bonds (both as defined by the Federal Law) from recognition as Russian tax residents and imposition of Russian profits tax on their profits if they are recognised as controlled foreign companies, provided that interest expenses on the traded bonds incurred by the issuer of the traded bonds comprises at least 90% of its total expenses for the relevant reporting period.

Recently the Russian Tax Code has been amended to allow in certain cases for judicial recovery of outstanding tax arrears of subsidiary/ associated companies from principal (dominant or interest holding) companies that follows preceding trends in the court practice. These amendments and initiatives may have a significant effect on CBM and may expose CBM to additional tax and administrative risks, as well as to extra costs necessary to secure compliance with the new rules. These facts create tax risks for CBM in Russia that may be substantially more significant than typically found in countries with more developed tax systems.

In early 2017 the Russian Government announced fundamental changes to the Russian tax system that will have a substantial impact on its structure. Labour taxes (social security contributions), indirect taxes and personal income tax may be affected by the proposed changes. The scope and substance of these changes is still under discussion and their final content and process for their implementation is still unclear. Due to a lack of clarity on the proposed changes, it cannot be definitively determined what effect these changes will have on Russian taxpayers, including CBM. Consequently, there can be no assurance that CBM’s tax burden will not increase significantly as a result of these changes.

It is currently unclear what effect these provisions may have on CBM. The imposition of additional tax liabilities because of the application of introduced rules and concepts to transactions carried out by CBM may have a material adverse effect on CBM’s business, financial condition and results of operations and/or prospects and the trading price of the Notes.

These changing conditions create tax risks in the Russian Federation that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of CBM. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. There also can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system.

In general, it is expected that Russian tax legislation will progressively become more sophisticated. Introduction of new taxes or amendments to current rules of taxation may affect CBM’s overall tax efficiency and may result in significant additional tax liabilities. CBM cannot provide Noteholders with any assurance that additional Russian tax exposures will not arise. Such additional tax exposures could have a material adverse effect on CBM’s business, financial condition and results of operations and/or prospects, and the value of the Notes.

CBM is subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities

Tax returns together with related documentation are subject to review and investigation by the tax authorities, which are enabled by Russian law to impose severe fines and penalties. Generally, tax returns remain open and subject to inspection by the tax authorities for an extra period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. However, the fact that a year has been reviewed by the tax authorities does not prevent any tax returns relating to that year from being further reviewed by the tax authorities during the three-year limitation period. In particular, a repeated tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation or liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable. Therefore, previous tax audits may not preclude from subsequent tax claims relating to the audited period.

In addition, on 14 July 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set out in the Tax Code if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the Tax Code provides for the possibility of an extension of the three-year statute of limitations for tax offences if the taxpayer obstructed the performance of the tax review, and this has become an insurmountable obstacle for the tax audit. Because the terms “obstructed”, “hindered” and “insurmountable obstacles” are not specifically defined in Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek additional tax adjustments and penalties beyond the three-year limitation term. Therefore, the statute of limitations is not entirely effective.

Tax audits or inspections may result in additional costs to CBM, in particular if the relevant tax authorities conclude that CBM did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on CBM by diverting the attention of management resources. The outcome of these audits or inspections could have a material adverse effect on CBM’s business, financial condition and results of operations and/or prospects, and the value of the Notes.

Russian transfer pricing rules may adversely affect CBM’s business, financial condition and results of operations

Russian transfer pricing legislation has been effective from 1 January 2012. The rules are technically elaborate, detailed and, to a certain extent, aligned with the international transfer pricing principles developed by the Organisation for Economic Co-operation and Development (the “OECD”).

The rules allow the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of transactions which are considered “controlled” for Russian transfer pricing purposes. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions. The rules have considerably increased the compliance burden for the taxpayers compared to the law which was in effect before 2012 due to, inter alia, shifting the burden of proving market prices from the Russian tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation. Furthermore, the taxpayers are obliged to notify the Russian tax authorities on “controlled” transactions. Although the transfer pricing rules are supposed to be in line with international transfer pricing principles developed by the OECD, there are certain significant differences of how these principles are reflected in the local rules. Special transfer pricing rules apply to transactions with securities and derivatives. It is difficult to evaluate what effect transfer pricing rules may have on CBM.

Since the date when Russian transfer pricing rules came into force transactions between affiliated parties have been examined by the Russian tax authorities for conformance with “arm’s-length

principle”. It is stipulated by the Russian Tax Code that an audit of the proper calculation and payment of taxes in connection with the conclusion of transactions between interdependent persons shall be performed by the Federal Tax Service. However, currently territorial tax authorities try to scrutinize terms and conditions in transactions concluded between related parties for “unjustified tax benefit” concept. Accordingly, due to the uncertainties in the interpretation of Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge CBM’s transfer prices and make adjustments which could affect CBM’s tax position unless CBM is able to confirm the use of market prices with respect to “controlled” transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing rules may have a material adverse effect on the CBM’s business, financial condition, and results of operations and/or prospects, and the value of the Notes.

The Russian thin capitalization rules allow different interpretations which may affect CBM’s business

Russian regulations on thin capitalization rules expressly restrict the ability to deduct interest charged on foreign controlled debt (“**Foreign Controlled Debt**”), which includes loans and other debt received by a Russian organisation (i) from a foreign person (legal entity or individual) acknowledged as a related party for Russian transfer pricing purposes, if this foreign person directly or indirectly holds shares in the Russian organisation’s charter capital; (ii) from another person that is a related party of the aforementioned foreign person; or (iii) which are guaranteed or otherwise secured by any of the above mentioned persons.

The ability to deduct interest is restricted to the extent that Foreign Controlled Debt exceeds net assets by more than 3 times (12.5 for banks and leasing companies). Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax. In the event the taxpayer has negative net assets, the whole amount of interest accrued on the controlled debt will be non-deductible and treated as a dividend.

The above stated definition of Foreign Control Debt was introduced by the Federal Law “On amending the article 269 of Part II of the Tax Code of the Russian Federation in respect to definition of controlled indebtedness” № 25-FZ adopted on 15 February 2016. This law introduced significant changes to Controlled Debt and the range of transactions controlled for the purposes of applying thin capitalisation rules. The law significantly extended the list of debt obligations that can be acknowledged as controlled by a direct provision of the Tax Code: for instance, debt obligations to foreign sister companies will be included into the scope of controlled debt by a direct provision of the Russian Tax Code. New rules entered into force on 1 January 2017, with the exception of the amendments related to loans from banks described above, which apply retroactively, starting from 1 January 2016.

Russian subsidiaries of CBM may be affected by the thin capitalization rules in Russia if at any time they are the recipient of Foreign Controlled Debt.

Introduction of the Common Reporting Standard may result in adverse tax consequences for investors and/ or CBM

On 12 May 2016, the Russian Federation signed a multilateral agreement on the automatic exchange of financial account information for tax purposes (Model Competent Authority Agreement or MCAA), which facilitated compliance with the OECD Standard for automatic exchange of financial account information (Common Reporting Standard or CRS). Under the CRS financial institutions of participating countries provide information on their clients’ financial accounts to local tax authorities, who subsequently share such information with each other. The OECD’s “Common Reporting Standards” will be implemented by Russia by year-end 2018. Implementation of CRS may result in information on the investors being provided to the Federal Tax Service (FTS). With regard to the

banks, compliance with CRS rules may lead to an additional administrative burden, and the ambiguity in local legislation may result in penalties.

Risks Relating to the Issuer, the Subordinated Loan, the Notes and the Trading Market

The trading price for the Notes could be adversely affected by changes in certain credit ratings

Outstanding Eurobonds of the Russian Federation are rated “Ba1” by Moody’s, “BB+” by S&P and “BBB-” by Fitch. CBM has “B1” long-term global and local currency deposit rating, “E+” financial strength rating and Ba3 counterparty risk assessment from Moody’s. Fitch has assigned to CBM “BB” long-term issuer default and “B” short-term issuer default ratings. CBM also has “BB-” long-term counterparty default and “B” short-term counterparty default ratings from S&P.

A significant number of CBM’s debt obligations have credit ratings, upon which investors rely in varying degrees, and which may be a prerequisite to certain investors holding such debt obligations. The credit rating agencies are constantly revising the criteria that they use to determine the credit ratings of debt obligations and/or changing their credit ratings of companies and their rated obligations. Any change in the methodology used by rating agencies could result in a downgrade in the ratings of a company or its rated obligations. Any downgrade in the ratings of a company and/or its rated obligations could make it more difficult and/or expensive for such companies to raise capital going forward and may adversely affect the price of their outstanding debt obligations. CBM’s rating is also sensitive to changes in the sovereign rating of the Russian Federation. Any such downgrade in corporate or sovereign ratings may cause the rating of the Notes to be reassessed or downgraded, which could affect the value of such Notes and increase CBM’s cost of raising capital.

The credit rating assigned to the Notes does not necessarily mean that they are a suitable investment and credit ratings assigned to CBM or to other instruments issued by or to fund CBM do not necessarily mean that an investment in CBM or such instruments is suitable. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Similar ratings on different types of notes do not necessarily mean the same thing. The rating does not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The rating does not address the marketability of the Notes or any market price. Any negative change in the credit ratings of CBM or the Russian Federation could adversely affect the trading price for the Notes. The significance of each rating should be analysed independently from any other rating.

Reset Rate of Interest – The interest rate on the Notes will be reset on the Early Repayment Date, which could affect interest payments on an investment in the Notes and the market price of any such investment

The Notes will initially bear interest at the Rate of Interest to (but excluding) the Early Repayment Date, at which time the Rate of Interest will be reset to the Reset Rate of Interest. The Reset Rate of Interest could be less than the Rate of Interest and thus could affect the market value of the Notes.

If the CBR does not approve the Subordinated Loan as Tier 2 Capital within 90 days after the date of the Subordinated Loan Agreement, CBM will have the right to prepay the Subordinated Loan and the Notes will be subject to early redemption

Under the current bank capital regulations, the Subordinated Loan will be included in CBM’s Tier 2 Capital after the CBR approves it as eligible for inclusion into the regulatory capital of CBM, but not earlier than the loan amount is transferred to CBM, i.e. after the settlement date for the Notes.

If the CBR does not grant final approval in respect of the Subordinated Loan within 90 days after the date of the Subordinated Loan Agreement, CBM will have the right to prepay the Subordinated Loan pursuant to Clause 7.4 (*Special Prepayment if the CBR does not issue the Borrower with the Final*

Conclusion on or before the Approval Date) of the Subordinated Loan Agreement, in which circumstances the Notes will be redeemed. There can be no assurance that Noteholders will be able to reinvest their funds in other investments at comparable rates following any such redemption of the Notes.

The Notes may be subject to early redemption at the option of the Issuer on the Early Repayment Date or any subsequent Interest Payment Date

The Issuer will have the right to redeem in whole (but not in part) the outstanding Notes on the Early Repayment Date or any subsequent Interest Payment Date at their outstanding principal amount, together with accrued and unpaid interest to (but excluding) the Early Repayment Date or any subsequent Interest Payment Date, subject to having obtained the prior written consent of the CBR.

This optional redemption feature is likely to limit the market value of the Notes because, in the period leading up to when the Issuer may elect to so redeem the Notes, the market price of the Notes generally will not rise substantially above the price at which they can be redeemed. An investor might not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and might only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Early redemption for certain other reasons

If at any time after the Final Conclusion, the Subordinated Loan ceases to fully qualify in whole but not in part as Tier 2 Capital following any amendment to, clarification of or change in (including a change in the official interpretation or application of) Regulation No. 395-P and/or any other applicable requirements of the CBR, CBM may, at its option, and with the prior written consent of the CBR, prepay the Subordinated Loan in whole (but not in part) pursuant to Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*) of the Subordinated Loan Agreement, in which circumstances the Notes will be redeemed.

Furthermore, CBM may, at its option, and with the prior written consent of the CBR, prepay the Subordinated Loan in whole (but not in part) for tax reasons or due to increase in cost pursuant to Clause 7.6 (*Special Prepayment in the Event of Taxes or Increased Costs*) of the Subordinated Loan Agreement, in which circumstances the Notes will be redeemed.

Upon such redemption, the market value of the Notes is unlikely to rise above the price at which they are to be redeemed and investors in the Notes might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Notes. These redemption features are also likely to limit the market value of the Notes during any period in which the Issuer may elect to redeem them, as the market price during this period generally will not rise substantially above the price at which they can be redeemed. This may similarly be true in any prior period when any relevant change in law is yet to become effective.

Repayment and variation of the Subordinated Loan may require the consent of the CBR

Most provisions of the Subordinated Loan Agreement providing for the prepayment of the Subordinated Loan and all provisions providing for the variation of its terms are subject to the prior written consent of the CBR, which is in line with the requirements of the applicable regulatory capital regulations. There can be no guarantee that the consent of the CBR will be received on time or at all and that CBM will be able to repay such Subordinated Loan in accordance with relevant provisions of the Subordinated Loan Agreement or that the terms of the Subordinated Loan will be amended as envisaged by the Subordinated Loan Agreement, which may have a material adverse effect on CBM's capital structure, results of operations or financial condition.

The Issuer's claims in respect of the Subordinated Loan will be subordinated to those of unsubordinated creditors under Russian insolvency legislation, as a result of which payments due under the Subordinated Loan Agreement may not be paid in full or at all

CBM's obligations in respect of the principal of, and interest on, the Subordinated Loan and any applicable Monetary Damages (as defined in the Subordinated Loan Agreement) will be subordinated upon the occurrence of a Bankruptcy Event (as defined in the Subordinated Loan Agreement) to the claims of all unsubordinated creditors in accordance with Federal Law No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended, supplemented or superseded from time to time) (the "**Insolvency Law**") and will rank at least *pari passu* with the claims of all other subordinated creditors of CBM (whether actual or contingent) having a fixed maturity from time to time outstanding and will be senior to the claims of holders of the CBM's Capital Stock (as defined in the Subordinated Loan Agreement) in their capacity as shareholders.

As a result, in case of Bankruptcy Event, CBM's assets will be available to satisfy obligations in respect of the Subordinated Loan only after the claims of all unsubordinated creditors have been satisfied in full. Such remaining assets may not be sufficient to satisfy CBM's obligations under the Subordinated Loan Agreement, in which case Noteholders would receive less than the amount of principal and/or interest and/or other amounts (if any) payable on the Notes or receive no amounts payable on the Notes.

The Subordinated Loan Agreement does not prohibit or limit the incurrence by CBM of unsubordinated indebtedness, other subordinated indebtedness that ranks equally with the indebtedness under Subordinated Loan or other liabilities by CBM. The incurrence of such additional indebtedness or other liabilities could adversely affect CBM's ability to make payments under the Subordinated Loan. As at 31 December 2016, CBM had RUB197.6 billion of long-term indebtedness. CBM anticipates that, from time to time, it will incur additional indebtedness, including unsubordinated indebtedness.

Restricted remedies

The only remedies against CBM available to the Issuer will be:

- (a) for recovery of amounts payable to the Issuer under the Subordinated Loan Agreement, the institution of proceedings for the insolvency (bankruptcy) of CBM and/or proving for such debt, and claim, in any consequent liquidation of CBM;
- (b) upon the bankruptcy or liquidation of CBM, the revocation of CBM's licence for the performance of banking operations or any analogous event under Russian law, to take any actions in the manner and to the extent contemplated by the applicable law of the Russian Federation to prove for its debt and/or, to the extent applicable, commence liquidation or winding up proceedings of CBM; or
- (c) to enforce any obligation, condition or provision binding on CBM under the Loan Agreement (other than any obligation for payment of any principal or interest in respect of the Loan), to institute such other proceedings against CBM as it may think fit, in each case, as more particularly set out in Clause 14 (*Limited Acceleration Events*) of the Subordinated Loan Agreement.

In the event of bankruptcy of CBM, however, the Issuer's claim in respect of the Subordinated Loan would be subordinated to the claims of all unsubordinated creditors. See "*The Issuer's claims in respect of the Subordinated Loan will be subordinated to those of unsubordinated creditors under Russian insolvency legislation, as a result of which payments due under the Subordinated Loan Agreement may not be paid in full or at all*".

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of Western European countries, which could adversely affect the value of the Notes in the event of CBM's insolvency

Russian bankruptcy law often differs from comparable law in Western European countries and is subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders against CBM would be resolved in case of its bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on an investment in the Notes.

The Subordinated Loan and Notes may be permanently written down upon the occurrence and the continuance of a Write Down Event

Pursuant to Clause 8 of the Subordinated Loan Agreement, if a Write Down Event (as defined in the Subordinated Loan Agreement) has occurred and is continuing, CBM shall (without the need for the consent of the Issuer or the Trustee) on the Write Down Measure Effective Date (as defined in the Subordinated Loan Agreement), (i) firstly, cancel any applicable Monetary Damages for the purposes of the Monetary Damages Cancellation Measure (as defined in the Subordinated Loan Agreement); (ii) secondly, if the Monetary Damages Cancellation Measure, together with the cancellation of monetary damages on the Write Down Instruments (as defined in the Subordinated Loan Agreement) in full is insufficient to remedy the Write Down Event, cancel the Interest Cancellation Amount (as defined in the Subordinated Loan Agreement) for the purposes of the Interest Cancellation Measure (as defined in the Subordinated Loan Agreement); and (iii) thirdly, if the Interest Cancellation Measure together with cancellation of accrued interest on the Write Down Instruments in full is insufficient to remedy the Write Down Event, Write Down the Write Down Amount for the purposes of the Principal Write Down Measure (as defined in the Subordinated Loan Agreement).

A Write Down Event is defined in the Subordinated Loan Agreement as either of the following: (i) the Base Capital Adequacy Ratio (as defined in the Subordinated Loan Agreement) falls below 2.0 per cent. for six or more Operational Days (as defined in the Subordinated Loan Agreement) in aggregate during any consecutive period of 30 Operational Days, or (ii) the Banking Supervision Committee of the CBR approves a plan for the participation of the Deposit Insurance Agency in bankruptcy prevention measures in respect of the Borrower which contemplates the provision of financial assistance by the Deposit Insurance Agency in accordance with the Insolvency Law.

Once the principal amount of the Subordinated Loan has been written down in accordance with Clause 8 of the Subordinated Loan Agreement, the principal amount so written down may not be restored under any circumstances, including where the relevant Write Down Event(s) is (are) no longer continuing. Any interest payment that has been cancelled in accordance with Clause 8 of the Subordinated Loan Agreement, shall not accumulate or be payable at any time thereafter, including where the relevant Write Down Event(s) is (are) no longer continuing. No interest shall accrue as long as a Write Down Event(s) is (are) continuing. The accrued interest may be cancelled and the Subordinated Loan may be written down in accordance with Clause 8 of the Subordinated Loan Agreement on more than one occasion. None of the Issuer, the Trustee or any Noteholder shall have any right to such cancelled or written down amounts whether in a bankruptcy or dissolution of CBM or otherwise, and such non-payment shall not constitute an event entitling the Issuer to accelerate the Subordinated Loan.

If a Write Down Event occurs, the principal amount of the Notes and/or interest amount then due in respect of the Notes (as applicable) will be subject to write down and cancellation in an amount equal to the principal amount of the Subordinated Loan and/or interest amount then due in respect of the Subordinated Loan so written down and cancelled (as applicable) in accordance with Clause 8 of the Subordinated Loan Agreement upon the occurrence of a Write Down Event. Any such write down or cancellation will result in Noteholders losing the relevant interest or principal amount of the Notes so written down or cancelled. Accordingly, Noteholders should be aware that they may lose their entire

investment in the Notes. If the entire principal amount of the Notes is written down, the Notes will be cancelled.

Any write-down of the Notes would be permanent and Noteholders will have no further claim against the Issuer in respect of any amount of the Notes subject to any write-down. Consequently, there is a real risk that investors may lose all or part of their investment following the occurrence of a Write Down Event. To the extent that part of the principal amount of the Subordinated Loan has been written down, interest will continue to accrue only on the then outstanding principal amount (as so written down) of the Subordinated Loan. Consequently, the amount of interest payable (if any) on the Notes will be correspondingly smaller following implementation of the write down measures. The occurrence of a Write-Down Event or any suggestion of such an occurrence could materially adversely affect the rights of Noteholders, the market value of the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

The provision in the Subordinated Loan Agreement for the cancellation of any applicable “Monetary Damages” is a requirement of the CBR regulation on subordinated instruments, which became effective from January 2016. Monetary Damages are defined as any amount of financial damages which CBM may be liable to pay for failure to perform its obligations under the Subordinated Loan Agreement. The Subordinated Loan Agreement does not provide for the payment by CBM of any form of Monetary Damages for its failure to perform its obligations under the Subordinated Loan Agreement; however, the concept of Monetary Damages is novel and its interpretation and application to English law documents is unclear.

None of the Trustee, any Agent or the Issuer shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Write Down Event or any consequent Write Down Measure (as defined in the Subordinated Loan Agreement) or cancellation or write down of the Notes or write down of any claims in respect thereof, and none of the Trustee, the Agents or the Issuer shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the same.

Noteholders will not have any rights against CBM, the Issuer, the Trustee or the Agents with respect to (i) the repayment of such principal amount of the Notes so written down or (ii) the payment of interest then due in respect of the Notes (as applicable) so cancelled and the concept of a payment default under the Notes will not apply.

Furthermore, upon the occurrence of a Write Down Event and the Write Down Measure Effective Date, Noteholders will not (i) receive any shares or other participation rights in the Issuer or CBM or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or CBM, or (ii) be entitled to any compensation in the event of any further change in the Base Capital Adequacy Ratio or in the event that the bankruptcy prevention measures referred to above are withdrawn, otherwise halted or completed. A write down of a principal amount of the Notes may occur even if existing preference shares and ordinary shares of CBM or the Issuer remain outstanding.

Limited recourse obligations of the Issuer

The Issuer is a special purpose vehicle with no business other than issuing notes and advancing loans under the Subordinated Loan Agreement and loan agreements in connection with previous issuances of loan participation notes and has no assets other than such loans. The Issuer has an obligation under the “*Terms and Conditions of the Notes*” and the Trust Deed to pay such amounts of principal and interest, and additional amounts (if any) as are due in respect of the Notes. However, the Issuer’s obligation to pay is equal to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from CBM pursuant to the Subordinated Loan Agreement, less any amount in respect of the Reserved Rights (as defined in the Trust Deed). Consequently, if CBM fails to meet its payment obligations under the Subordinated

Loan Agreement in full or any such payment obligations are determined to be unenforceable in Russia, this will result in the Noteholders receiving less than the scheduled amount of principal and/or interest and/or other amounts (if any) payable on the Notes.

There is no direct recourse of the Noteholders to CBM

At maturity, CBM may not have the funds to fulfil its obligations under the Subordinated Loan Agreement and it may not be able to arrange for additional financing. Except otherwise expressly provided in “*Terms and Conditions of the Notes*” and in the Trust Deed, no proprietary or other direct interest in the Issuer’s rights under or in respect of the Subordinated Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Subordinated Loan Agreement or have direct recourse to CBM as borrower except through action by the Trustee under the Security Interests (as defined in the Trust Deed) granted to the Trustee in the Trust Deed.

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by CBM of its obligations under the Subordinated Loan Agreement. Neither the Issuer nor the Trustee under the Assigned Rights (as defined under “*Terms and Conditions of the Notes*”) shall be required to monitor CBM’s financial performance or status or to enter into proceedings to enforce payment under the Subordinated Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal and/or interest and/or other amounts (if any) by CBM under the Subordinated Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer’s obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or CBM after such payment is made.

There is currently no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of CBM. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to trading on the Main Securities Market of the Irish Stock Exchange, there is no assurance that such application will be accepted or that a liquid market will develop or be maintained for the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. There can be no assurance that Noteholders will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

Even if a market for the Notes develops, the market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the operating results of CBM’s competitors, adverse business developments, changes to the regulatory environment in which CBM operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes and other factors, including those set forth in “*Risk Factors*”. Any such disruptions may harm Noteholders. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could affect the market price of the Notes without regard to our results of operations, prospectus or financial condition.

The Notes are subject to modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for convening meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind

all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may agree, without the consent of the Noteholders, (i) to any modification of any provision of the Notes, the Conditions and the Trust Deed or, following the creation of the Security Interests, the Subordinated Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification and any waiver or authorisation of any breach or proposed breach of any provision of the Notes, the Conditions and the Trust Deed or, following the creation of the Security Interests, the Subordinated Loan Agreement which in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders or (iii) the substitution of any entity in place of the Issuer as creditor under the Subordinated Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed, in the circumstances described in “*Terms and Conditions of the Notes – Meetings of Noteholders; Modification; Waiver; Substitution of the Lender*”.

The Issuer may issue further Notes with identical terms that may have a negative impact on the market value of the original Notes

The Issuer may from time to time, without the consent of the Noteholders of outstanding Notes, issue further notes with identical terms. These further Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, may be treated as a separate series not fungible with the original Notes for U.S. federal income tax purposes. If the further Notes are not fungible with the original Notes for U.S. federal income tax purposes and are not otherwise distinguishable from the original Notes, the market value of the original Notes may be negatively impacted in the event that the further Notes are issued with original issue discount for U.S. federal income tax purposes.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (A) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement; (B) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio; (C) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor’s currency; (D) understand thoroughly the terms of the Notes; and (E) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

CBM’s controlling shareholder may have interests that have an adverse impact on CBM and the Noteholders

LLC Concern Rossium (“**Concern Rossium**”) controls 56.8% of CBM’s share capital. The majority participant of Concern Rossium is Mr. Roman Avdeev, who is the ultimate controlling party of CBM. As such, he exercises significant control over CBM. While CBM believes that it adheres to best corporate governance practices and that the interests of the controlling shareholder will remain consistent with those of CBM, there can be no assurance that such interests will always be consistent or that his rights will be exercised for CBM’s benefit or for the benefit of the Noteholders. See – “*Related Party Transactions*”.

CBM's payments under the Subordinated Loan may be subject to Russian withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity or organisation to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in the Russian Federation, are subject to Russian withholding tax at a rate of 20%, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

Where a beneficial owner of interest payments, or part thereof from the Subordinated Loan is an individual, personal income tax at a rate of 13% (30% in case of Noteholders that are Russian non-residents for tax purposes) would apply to the gross payment subject to application or provision of a relevant double tax treaty.

A Russian organisation or a foreign organisation that operates in Russia through a permanent establishment that pays interest income to a foreign organisation should withhold the tax at each payment, except for, inter alia, the interest payments made to foreign organisations on debt obligations, arising in connection with issuance by foreign organisations of traded bonds, provided that the foreign organisation receiving interest income is tax resident in a jurisdiction having double tax treaty with Russia and has duly confirmed its tax residence prior to the date of receiving the interest income.

For the purpose of the above exemption, the term “traded bonds” means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organisations, provided that such foreign stock exchanges and depository clearing organisations are specified in a list that was approved by the FSFM in consultation with the Ministry of Finance on 25 October 2012. The fact that bonds are “traded” must be confirmed by the relevant Russian company based on information provided by foreign stock exchanges, depository clearing organisations, offering memoranda or other documents relating to the issue of the bonds and publicly available information.

The debt obligation is treated as connected with the issuance of traded bonds by foreign organisations if it is explicitly stated in the agreement governing the relevant debt obligation, and (or) terms and conditions, and (or) prospectus of issuance of quoted bonds or if this fact is confirmed by the actual transfer of funds upon the issuance of traded bonds.

CBM believes that under the abovementioned provisions of the Tax Code and the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with respect to Taxes on Income signed on 29 April 1994 (the “**Convention**”) it will be exempt from the obligation to withhold tax from the Issuer's interest income if the Issuer is a tax resident in Ireland and has submitted to CBM a special confirmation of its tax residency prior to the relevant settlement.

In circumstances where payments under the Subordinated Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, there is uncertainty as to whether the Borrower will be released from the obligation to withhold the Russian withholding tax from interest payments made to the Trustee. In such a case payments of interest under the Subordinated Loan Agreement to the Trustee may become subject to the Russian withholding tax at a rate of 20%, or such other rate as may be effective at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In addition, whilst some Noteholders may be eligible for an exemption from, or a reduction in, the Russian withholding tax under applicable double tax treaties, there is no assurance that in this case the respective treaty relief will be available to them in practice. If payments under the Subordinated Loan are subject to the Russian withholding tax (as a result of which the Issuer would reduce payments made under the Notes by the amount of the tax withheld), CBM will be obliged under the terms of the Subordinated Loan Agreement to pay such additional amounts as may be necessary to ensure that the

net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging CBM to gross-up interest payments under the Subordinated Loan will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that the interest payments made by CBM under the Subordinated Loan Agreement will be reduced by the amount of the Russian income tax withheld by CBM at the rate of 20%, or such other rate as may be in force at the time of payment. See “*Taxation*”.

Tax might be withheld on dispositions of the Notes in the Russian Federation reducing their value

Noteholders - Individuals

Where proceeds from the disposition of Notes are received from a source within the Russian Federation (e.g. through a Russian broker) by an individual Noteholder personal income tax at a rate of 13% (30% in case of Noteholders that are Russian non-residents for tax purposes) would apply to the gross proceeds from the disposition of the Notes decreased by any available documented cost deductions (including the acquisition cost of the Notes).

In the case of Noteholders that are Russian non-residents for tax purposes, such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities. See “*Taxation of Non-Resident Noteholders – Individuals*” for more information on the double tax treaty relief.

With respect to income received from securities transactions, the Tax Code is typically interpreted such that only a licensed broker or an asset manager or other party that is a Russian legal entity or an organisation, or any other person, including a foreign company with a permanent establishment or, arguably, any registered presence in the Russian Federation or an individual entrepreneur registered in the Russian Federation who carries out operations under an asset management agreement, brokerage service agreement, agency agreement, a commission agreement or commercial mandate agreement have to withhold tax from payments associated with the disposition of securities made to a non-Russian individual, and other categories of companies /foreign companies /individual entrepreneurs which may be recognized as tax agents for tax withholding purposes in Russia, may be obliged to withhold personal income tax under these circumstances. We recommend that a Noteholder ascertains that tax has been withheld by the tax agent correctly (including cases where no withholding tax on Russian source income was applied), otherwise the personal obligation for the Noteholder to file an individual income tax return may arise.

Noteholders – Legal Entities

As stated above the interest payments made to foreign organisations on debt obligations, arising in connection with issuance by foreign organisations of traded bonds, provided that the foreign organisation receiving interest income is tax resident in a jurisdiction having double tax treaty with Russia and has duly confirmed its tax residence prior to the date of receiving the interest income, should be treated as exempt from withholding tax in Russia.

However, there is a risk that Russian tax authorities may try to challenge the exemption from the withholding tax of the amounts of accrued interest (coupon) income on the Notes paid to non-resident seller under disposal of the Notes on the secondary market. Although in its clarifications the Russian Ministry of Finance adheres to an unambiguous opinion that accrued interest income paid by Russian legal entities to non-resident foreign entities as part of purchase price at disposal of “traded” bonds issued by foreign organisations should not be subject to withholding tax in Russia, court practice with respect to Russian withholding tax on dispositions of “traded” bonds is inconsistent and negative rulings exist. There is a risk that payments from Russian counterparties to non-resident Noteholders under disposal of the Notes could be considered as income derived from sources in the Russian Federation and thus subject to Russian withholding tax.

The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See “*Taxation – Russian Taxation – Taxation of the Notes*”. In addition, while some Noteholders might be eligible for an exemption from or a reduction in the Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under these circumstances.

The U.S. Foreign Account Tax Compliance Act rules could materially affect CBM, the Issuer and Noteholders

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the provisions commonly known as “**FATCA**”) were enacted in 2010 to prevent U.S. tax evasion by requiring foreign banks and investment funds to provide information to the United States Internal Revenue Service (the “**IRS**”) about U.S. customers and investors. This is achieved through a comprehensive information reporting regime that requires foreign financial institutions (such as CBM and the Issuer) to conduct diligence on their account holders and investors to determine whether their accounts are “U.S. accounts”, and either provide detailed information about these U.S. accounts to the IRS or suffer a 30% withholding tax on certain payments. Although the U.S. Treasury Department has released final regulations clarifying the statutory language of FATCA, these regulations do not currently provide guidance on a number of issues. Accordingly, the scope and application of FATCA is uncertain at this time. It is possible that FATCA could operate to impose U.S. withholding tax on (i) beginning in 2014, payments to CBM and the Issuer in respect of certain types of income from sources in the United States if CBM or the Issuer (as the case may be) is not compliant with FATCA, (ii) beginning in 2019, payments to CBM and the Issuer of gross proceeds from the disposition of, among other things, securities that give rise to United States source income if CBM or the Issuer (as the case may be) is not compliant with FATCA, and (iii) beginning no earlier than 2019, (a) certain “pass-thru payments” to CBM and the Issuer, if CBM or the Issuer (as the case may be) are not compliant with FATCA, or (b) certain “pass-thru payments” from the Issuer to certain Noteholders, if the Issuer is FATCA compliant but the payee, including any paying agent is not FATCA compliant. It is also possible that CBM and the Issuer could incur material costs in implementing information-gathering systems to comply with FATCA. FATCA will not apply to the Notes, however, unless (i) they are treated as equity for U.S. federal income tax purposes or (ii) they are treated as Indebtedness of Issuer and the Notes are materially modified (including if the Issuer substitutes another entity as issuer of the Notes pursuant to Condition 10(C)) after the date that is six months after the date on which the term “foreign pass-thru payment” is defined in regulations published in the U.S. Federal register. However, if additional notes (as described under “*Terms and Conditions of the Notes – Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

By purchasing the Notes, Noteholders agree to provide an IRS form W-9 or W-8 (as applicable), and whatever other information may be necessary for CBM and the Issuer to comply with these reporting obligations should either CBM or the Issuer qualify as a “foreign financial institution” under FATCA. FATCA may also apply to certain payments from the Issuer to Noteholders. If an amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from interest or other payments on the Notes as a result of an investor’s failure to comply with these rules, neither CBM nor the Issuer nor any paying agent nor any other person would be required to pay additional amounts with respect to any Notes as a result of the deduction or withholding of such tax.

Examiners, preferred creditors and floating charges may give rise to additional risks for the Notes

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its centre of main interest (“**COMI**”) is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the

“ECJ”) in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings that the place of a company’s registered office is presumed to be the company’s COMI and stated that the presumption can only be rebutted if “factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect”. As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer’s COMI is not located in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the relevant Irish court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity, and that all its liabilities are of a limited recourse nature and the structure of the transaction, means that it is unlikely that an examiner would be appointed to the Issuer.

If however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- (i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and
- (ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders’ views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

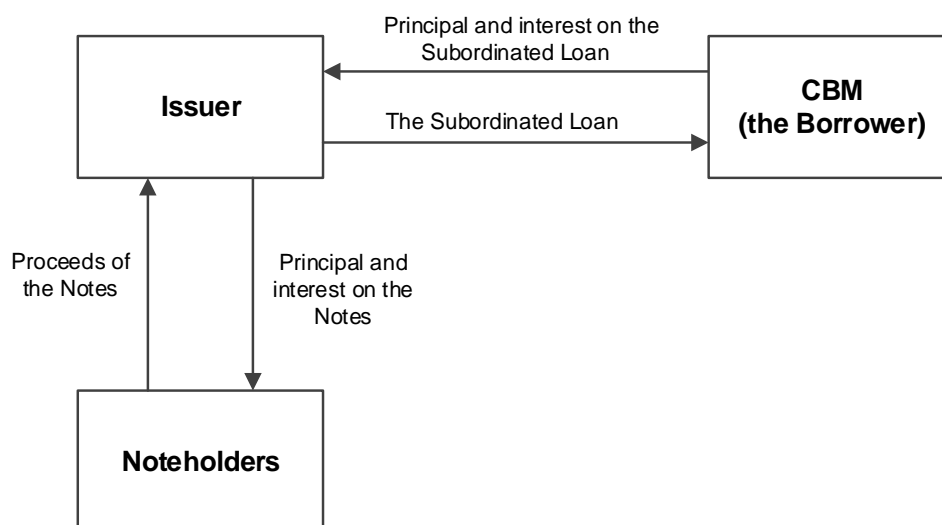
- (i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Subordinated Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE, local property tax and VAT;
- (ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and
- (iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

DESCRIPTION OF THE TRANSACTION

The following summary description contains basic information about the Notes and the Subordinated Loan and should be read in conjunction with, and is qualified in its entirety by, the information set out under “Terms and Conditions of the Notes” and “Subordinated Loan Agreement” appearing elsewhere in this Prospectus.

The transaction will be structured in the form of a subordinated loan to the Borrower by the Issuer in the amount equivalent to the gross proceeds of the issue of the Notes. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Subordinated Loan to the Borrower. The Subordinated Loan will be made on the terms and conditions of the Subordinated Loan Agreement and will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Trustee and the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives and retains (net of tax) by or for its account from the Borrower pursuant to the Subordinated Loan Agreement or that are deposited in the Account, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to the Noteholders. If the amount due and payable by the Issuer under the Notes exceeds the sums so received, recovered or retained, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

Set out below is a diagrammatic representation of the transaction structure:



As provided in the Trust Deed, the Issuer has charged with full title guarantee in favour of the Trustee for itself and for the benefit of the Noteholders as security for its payment obligations in respect of the Notes:

- (a) its rights, interests and benefits in and to all principal, interest, additional amounts and indemnity amounts (if any) payable by the Borrower under the Subordinated Loan Agreement;
- (b) its rights to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Subordinated Loan Agreement; and
- (c) its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Issuer, together with the debt

represented thereby and accrued interest therein (the “**Account**”), (collectively, the “**Charged Property**”), in each case other than the Reserved Rights (as defined in the Trust Deed) and amounts relating thereto.

In addition, the Issuer has assigned absolutely certain administrative rights under the Subordinated Loan Agreement to the Trustee for the benefit of the Noteholders. The Borrower will be obliged to make payments under the Subordinated Loan to the Issuer in accordance with the terms of the Subordinated Loan Agreement to the Account or, following a Relevant Event, as otherwise instructed by the Trustee.

The Issuer has covenanted not to agree to any amendments to, or any modification or waiver of, or to authorise any breach or potential breach of, the terms of the Subordinated Loan Agreement unless the Trustee has given its prior written consent (in each case except in relation to the Reserved Rights).

The Issuer (save as expressly provided in the Trust Deed, the Subordinated Loan Agreement or with the consent of the Trustee) shall not pledge, charge or otherwise deal with the Subordinated Loan or the Charged Property or the administrative rights assigned to the Trustee or any right or benefit either present or future arising under or in respect of the Subordinated Loan Agreement or the Account or any part thereof or any interest therein or purport to do so (in each case except in relation to the Reserved Rights). Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the “*Terms and Conditions of the Notes*” and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in “*Terms and Conditions of the Notes*”.

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of Ireland or the Russian Federation, except as required by law. See “*Terms and Conditions of the Notes – Taxation*”. In that event, the Issuer will only be required to pay an additional amount to the extent it receives and retains (net of tax) corresponding amounts from the Borrower under the Subordinated Loan Agreement. The Subordinated Loan Agreement provides for the Borrower to pay such corresponding amounts in these circumstances. In addition, payments under the Subordinated Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes in the Russian Federation or any jurisdiction from, or through, which any payments are made, except as required by law, in which event the Borrower will be obliged to increase the amounts payable under the Subordinated Loan Agreement. See “*Risk Factors – Risks Related to the Issuer, the Subordinated Loan, the Notes and the Trading Market – CBM’s payments under the Subordinated Loan may be subject to Russian withholding tax*”.

The Borrower may prepay the Subordinated Loan only in the limited circumstances set out in Clause 7 (*Repayment and Prepayment*) of the Subordinated Loan Agreement. To the extent that the Issuer has actually received the relevant funds from the Borrower, the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) thereon. See Clause 7 (*Repayment and Prepayment*) of the Subordinated Loan Agreement and Condition 6 (*Redemption and Purchase*) of the “*Terms and Conditions of the Notes*”.

CBM may, following the occurrence of a Write Down Event, write down and cancel all or a portion of the Subordinated Loan as set out in Clause 8 (*Write Down*) of the Subordinated Loan Agreement. Such write down measures may be implemented on more than one occasion and the Subordinated Loan may be written down on more than one occasion. In addition, no interest shall accrue on the Subordinated Loan during any period when a Write Down Event has occurred and is continuing and no amounts of interest or principal may be paid by the Borrower during such period. Any write down and cancellation of the Subordinated Loan will trigger a simultaneous and equal write down and cancellation of the Notes in accordance with Condition 6(C) (*Write down of the Notes following a*

Write Down Event). See Clause 8 (*Write Down*) of the Subordinated Loan Agreement and Condition 6 (*Redemption and Purchase*) of the “*Terms and Conditions of the Notes*”.

As at the date of this Prospectus, CBM has received the preliminary conclusion (*podtverzhdenie*) of the CBR on the eligibility of the Subordinated Loan for inclusion as Tier 2 Capital under CBR Regulation No. 395-P “On the methodology of determination of the amount of own funds (capital) of credit organisations (Basel III)” dated 28 December 2012 (as amended, supplemented or superseded from time to time) (“**Regulation 395-P**”). CBM has not yet received the Final Conclusion. There can be no guarantee that the Final Conclusion will be granted within the specified time period or at all. If the CBR does not grant such final approval and conclusion in respect of the Subordinated Loan within 90 days after the date of the Subordinated Loan Agreement, CBM will have the right to prepay the Subordinated Loan pursuant to the Subordinated Loan Agreement.

USE OF PROCEEDS

The Issuer will use the proceeds of the offering of the Notes for the sole purpose of financing the Subordinated Loan to CBM. CBM will use the proceeds of the Subordinated Loan for general banking purposes, including, without limitation, to finance the purchase of U.S.\$500,000,000 8.70% Loan Participation Notes due 2018 (Rule 144A: ISIN: US12504PAB67, Common Code 092550826, CUSIP: 12504PAB6; Regulation S: ISIN XS0924078453, Common Code: 092407845) (the “**Existing Notes**”) issued by, but with limited recourse to, the Issuer for the sole purpose of financing a subordinated loan to CBM, tendered and accepted for purchase in accordance with the terms and conditions of the Tender Offer (as defined herein) that will be settled on or about 3 April 2017. In connection with the Subordinated Loan, CBM will pay the Issuer a facility fee of U.S.\$2,098,148.60 and other costs relating to the offering of the Notes. Estimated fees and expenses related to the Offering are expected to be approximately U.S.\$3,410,000.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth CBM's capitalisation as at 31 December 2016 and is extracted from the 2016 Annual Financial Statements. For further information regarding CBM's financial position, see "Operating and Financial Review" and the Financial Statements included elsewhere in this Prospectus.

	As at 31 December 2016 RUB millions
Liabilities	
Deposits by the Central Bank of the Russian Federation	247,170
Deposits by credit and other financial institutions.....	381,624
Deposits by customers.....	689,496
Debt securities issued.....	137,203
Deferred tax liability.....	190
Other liabilities.....	8,885
Total liabilities	1,464,568
Equity	
Share capital.....	24,742
Additional paid-in capital.....	35,047
Revaluation surplus for buildings.....	688
Revaluation reserve for available-for-sale securities.....	451
Currency translation reserve.....	4
Retained earnings.....	42,294
Total equity	103,401
Total liabilities and equity	1,567,969

On 20 March 2017, the Issuer, at the request of CBM, announced the tender offer for the Existing Notes (the "**Tender Offer**"). Following the expiration of the Tender Offer, the Issuer accepted for purchase the Existing Notes in aggregate principal amount of U.S.\$393,795,000. The Tender Offer is expected to be settled on or about 3 April 2017.

In March 2017 CBM signed a syndicated loan facility agreement for up to U.S.\$500 million with a number of international and local financial institutions. The facility matures in March 2018 and bears floating rates with reference to LIBOR (with respect to a U.S.\$-denominated facility) and EURIBOR (with respect to a EUR-denominated facility). The principal portion of the dual-tranche facility has been disbursed on 31 March 2017 with the disbursement of the remaining part under the facility with identical principal terms expected in April 2017.

Except as set forth above, there have been no material changes in the consolidated capitalisation and indebtedness of CBM.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The financial information set forth below for the years ended 31 December 2016, 2015 and 2014 has been extracted without material adjustment from the Financial Statements. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and “Operating and Financial Review”.

Selected Statement of Comprehensive Income Information

	Year ended 31 December		
	2016	2015	2014
	RUB millions		
Interest income	113,398	89,211	58,183
Interest expense	(73,099)	(59,922)	(32,301)
Net interest income	40,299	29,288	25,883
Provision for impairment of loans	(29,783)	(26,036)	(11,645)
Net interest income after provision for impairment of loans.....	10,516	3,253	14,237
Fee and commission income	13,394	9,343	9,027
Fee and commission expense	(2,247)	(1,718)	(1,736)
Net gain (loss) on financial instruments at fair value through profit or loss	235	1,202	(2,109)
Net realised gain (loss) and impairment of available-for-sale assets	1,208	(401)	(189)
Net foreign exchange gains (losses)	6,065	2,743	(2,486)
State deposit insurance scheme contributions	(920)	(708)	(568)
Operating lease income	1,252	42	—
Other operating income (expense), net	(549)	(565)	468
Non-interest income	18,438	9,938	2,407
Operating income	28,954	13,190	16,644
Salaries and employment benefits	(7,700)	(5,519)	(5,335)
Administrative expenses	(5,260)	(4,201)	(3,719)
Depreciation of property and equipment	(1,481)	(618)	(530)
(Provision for) impairment of other assets and credit related commitments	(778)	(908)	(43)
Operating expense	(15,219)	(11,246)	(9,627)
Profit before income taxes	13,735	1,945	7,018
Income tax	(2,861)	(435)	(1,448)
Profit for the period	10,874	1,509	5,569
Total comprehensive income for the period	11,062	2,660	4,329

Selected Statement of Financial Position Information

	As at 31 December		
	2016	2015	2014
	RUB millions		
Cash and cash equivalents	373,327	138,015	118,697
Obligatory reserves with the Central Bank of the Russian Federation	7,287	5,936	3,360
Due from credit and other financial institutions	403,480	277,296	6,881
Financial instruments at fair value through profit or loss	83,909	72,137	49,865
Available-for-sale securities	45,903	87,403	11,112
Loans to customers	626,535	593,065	378,014
Property and equipment	21,278	7,004	7,399
Other assets	6,250	27,344	9,512
Total assets.....	1,567,969	1,208,201	584,839
Deposits by the Central Bank of the Russian Federation	247,170	4,045	11,594
Deposits by credit and other financial institutions	381,624	84,660	54,303
Deposits by customers	689,496	898,692	334,852
Debt securities issued	137,203	121,155	118,621
Deferred tax liability	190	2,381	2,196
Other liabilities	8,885	4,930	3,284
Total liabilities	1,464,568	1,115,862	524,852
Total equity	103,401	92,338	59,987
Total liabilities and equity	1,567,969	1,208,201	584,839

Selected Non-IFRS Financial Ratios and Other Non-IFRS Information

	As at or for the year ended 31 December		
	2016	2015	2014
		%	
Financial Performance			
Return on average assets ⁽¹⁾	0.8	0.2	1.1
Return on average equity ⁽²⁾	11.0	2.1	10.1
Cost-to-income ratio ⁽³⁾	24.6	26.4	33.9
Net Interest Margin ⁽⁴⁾	3.3	3.9	5.8
Liquidity			
Loans to customers / current accounts and deposits from customers	90.9	66.0	112.9
Total liquid assets ⁽⁵⁾ / total assets	57.8	47.6	31.9
Capital Adequacy			
Basel III ratio ⁽⁶⁾			
Total capital ratio	14.7	16.5	15.8
Core Tier 1 capital ratio	9.4	9.2	10.5
Tier 1 capital ratio	9.4	9.2	10.5
CBR total capital adequacy ratio ⁽⁷⁾	12.6	16.1	14.2
CBR common equity tier 1 capital adequacy ratio (N1.1) ⁽⁷⁾	7.28	8.17	7.60
CBR tier 1 capital adequacy ratio (N1.2) ⁽⁷⁾	7.28	8.17	7.60
Credit Quality			
Non-performing loans as a proportion of the gross loans to customers (NPL ratio) ⁽⁸⁾	2.3	5.1	2.3
Total loan impairment allowance as a proportion of overdue loans	208.3	105.6	111.1
Provision for loan impairment as a proportion of average loan portfolio ⁽⁹⁾	6.3	7.7	4.6

Notes:

- (1) This measure is an APM. Return on average assets is calculated as profit for the period divided by the average balance of total assets (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”).
- (2) This measure is an APM. Return on average equity is calculated as profit for the period divided by the average of total equity (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”).
- (3) This measure is an APM. Cost-to-income ratio is calculated as operating expense (excluding recovery of (provision for) impairment of other assets and credit related commitments) divided by operating income (excluding net provision charge for loan impairment).
- (4) This measure is an APM. Net interest margin is calculated as net interest income before provision for impairment of loans divided by average interest-earning assets (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”).
- (5) This measure is an APM. Total liquid assets are the sum of cash and cash equivalents, financial instruments at fair value through profit or loss, available-for-sale securities and due from credit and other financial institutions.
- (6) Calculated in accordance with Basel III requirements as adopted in the Russian Federation, based on IFRS financial information, as described in Note 27 to each of the 2016 Annual Financial Statements and the 2015 Annual Financial Statements. See “Operating and Financial Review – Capital Adequacy – Basel Capital Adequacy.”
- (7) Calculated in accordance with CBR requirements under Regulation 395-P based on data prepared in accordance with Russian Accounting Standards. See “Operating and Financial Review – Capital Adequacy – CBR Capital Adequacy Ratio”.
- (8) This measure is an APM. Non-performing loans are defined as loans with overdue payments of principal loan amount and/or interest by more than 90 days.
- (9) Calculated as the ratio of loan impairment allowance to the average balance of gross loans at the relevant date.

SELECTED STATISTICAL INFORMATION

The following tables present certain of CBM's selected statistical information for the periods indicated. The information set out below should be read in conjunction with the Financial Statements, "Operating and Financial Review" and "Presentation of Financial and Other Information". The statistical information presented below, as well as discussion and analysis set out under "Operating and Financial Review" for the years ended 31 December 2016, 2015 and 2014 are presented solely for the convenience of the reader for analytical purposes and on the basis of Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding Companies) ("Guide 3"). Limitations in CBM's existing financial reporting system prevent it from generating certain information pursuant to Guide 3.

Average Balance Sheet and Interest Rate Data

The following tables set out the average balances of interest-earning assets and interest-bearing liabilities of CBM for the years ended 31 December 2016, 2015 and 2014. The average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2016, 2015 and 2014 presented in this Prospectus represent the average of the opening (31 December of the previous year), quarter-end (31 March, 30 June, 30 September) and closing (31 December) balances for the applicable year. See "Presentation of Financial and Other Information – Non-IFRS Measures – Average Balance Sheet and Interest Rate Data".

Average Interest-Earning Assets and Interest-Bearing Liabilities

The following tables set out for the years ended 31 December 2016, 2015 and 2014: (i) the average balances of interest-earning assets and interest-bearing liabilities of CBM; (ii) the interest income received on each interest-earning asset and the interest expense paid for each interest-bearing liability; and (iii) the average yield for interest-bearing assets and the average rate paid for interest-bearing liabilities.

	For the year ended 31 December								
	2016			2015			2014		
	Average amount for the year	Interest income / expense	Average yield / rate paid	Average amount for the year	Interest income / expense	Average yield / rate paid	Average amount for the year	Interest income / expense	Average yield / rate paid
RUB millions, except percentages									
Interest-earning assets									
Loans to customers ⁽¹⁾	600,623	81,818	13.6%	456,789	70,293	15.4%	342,837	50,816	14.8%
Debt securities issued ⁽²⁾	144,440	12,130	8.4%	94,828	9,748	10.3%	58,331	5,273	9.0%
Deposits in credit and other financial institutions and CBR	487,674	19,450	4.0%	201,765	9,170	4.5%	46,834	2,094	4.5%
Total interest-earning assets.....	1,232,737	113,398	9.2%	753,382	89,211	11.8%	448,002	58,183	13.0%
Other assets	102,206			72,973			49,150		
Total Assets	1,334,943			826,355			497,152		
Interest-bearing liabilities									
Deposits by customers	858,548	53,928	6.3%	526,148	44,195	8.4%	297,007	21,151	7.1%
Debt securities issued	116,647	10,773	9.2%	119,972	11,399	9.5%	89,697	7,755	8.6%
Deposits by credit	253,989	8,398	3.3%	100,875	4,328	4.3%	50,161	3,395	6.8%

and other financial
institutions and
CBR

Total interest-bearing liabilities	1,229,184	73,099	5.9%	746,995	59,922	8.0%	436,865	32,301	7.4%
Other liabilities	7,747			6,305			5,320		

Total Liabilities **1,236,931** **753,300** **442,185**

Net interest income	40,299			29,289			25,882		
Net interest spread⁽²⁾			3.3%			3.8%			5.6%
Net interest margin⁽³⁾			3.3%			3.9%			5.8%

Notes:

- (1) Net of impairment allowance.
- (2) Includes available-for-sale securities and financial instruments at fair value through profit or loss and excludes corporate shares.
- (2) This measure is an APM. Net interest spread is defined the difference between the average yield (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”) earned on Interest-Earning Assets and the average rate paid (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”) on Interest-Bearing Liabilities.
- (3) This measure is an APM. Net Interest Margin is calculated as net interest income before provision for impairment of loans divided by average Interest-Earning Assets (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”).

Changes in Interest Income and Interest Expense

The following table sets out for the years ended 31 December 2016, 2015 and 2014, changes in interest income/expense due to changes in volume and interest rates for the principal components of interest-earning assets and interest-bearing liabilities set out in the tables above.

	2016/2015			2015/2014		
	Change in interest income / expense	Change in volume	Change in rates	Change in interest income / expense	Change in volume	Change in rates
	RUB millions					
Loans to customers ⁽¹⁾	11,525	19,593	(8,068)	19,477	17,536	1,941
Debt securities ⁽²⁾	2,382	4,166	(1,784)	4,475	3,752	724
Deposits in credit and other financial institutions and CBR	10,280	11,403	(1,123)	7,076	7,041	34
Total interest-earning assets	24,187	35,163	(10,975)	31,027	28,328	2,699
Deposits by customers	9,733	20,879	(11,146)	23,044	19,247	3,797
Debt securities issued	(626)	(307)	(319)	3,644	2,876	768
Deposits by credit and other financial institutions and CBR	4,070	5,063	(992)	933	2,176	(1,243)
Total interest-bearing liabilities ...	13,177	25,635	(12,458)	27,621	24,300	3,322

Notes:

- (1) Net of impairment allowance.
- (2) Includes available-for-sale securities and financial instruments at fair value through profit or loss and excludes corporate shares.

Securities Held – Maturity Profile

The following table sets out the maturity range of CBM's debt securities portfolio as at 31 December 2016. For the average yield of the debt securities portfolio for the years ended 31 December 2016, 2015 and 2014, see “– Average Balance Sheet and Interest Rate Data – Average Interest-Earning Assets and Interest-Bearing Liabilities”.

As at 31 December 2016						
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No Stated Maturity
	Total					
	RUB millions					
Federal loan bonds (OFZ bonds).....	1,047	-	-	-	-	1,047
Municipal and sub-federal bonds	6,311	-	-	-	-	6,311
Corporate bonds	90,250	3,496	-	19,758	6,288	119,792
Total debt securities portfolio⁽¹⁾ ...	97,608	3,496	-	19,758	6,288	127,263

Note:

- (1) Includes available-for-sale securities and financial instruments at fair value through profit or loss and excludes derivative financial instruments and promissory notes.

Deposits

The following table presents the average amount of deposits in the categories indicated for the years ended 31 December 2016, 2015 and 2014.

Average Value of Deposits

	Year ended 31 December		
	2016	2015	2014
	(RUB millions)		
Individuals			
Current/demand accounts	12,301	11,156	11,115
Term deposits	205,458	167,653	133,408
Total due to individuals	217,759	178,809	144,523
Corporate customers			
Current/settlement accounts	44,049	23,581	27,577
Term deposits	574,832	315,324	123,905
Subordinated	19,802	4,377	—
Term notes	2,107	4,057	1,002
Total due to corporate customers	640,789	347,339	152,484
Total due to individuals and corporate customers	858,548	526,148	297,007

OPERATING AND FINANCIAL REVIEW

The following discussion of CBM's financial condition and results of operations should be read in conjunction with the Financial Statements and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. CBM's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

Established in 1992, CBM is one of the leading privately owned universal banks in Russia, listed on the Moscow Exchange, that focuses on providing banking products and services to corporate customers and individuals in the Moscow Area, comprising Moscow and the Moscow region. CBM offers a comprehensive range of banking services, including corporate and retail lending, deposit-taking, cash handling, international settlements, trade finance, letters of credit, guarantees, plastic card services, foreign exchange operations and other products. CBM's corporate banking business was traditionally focused on retail and wholesale trading corporate customers, enabling CBM to capitalise on the Russian consumer market. In recent years, CBM's client franchise was broadened towards large and medium sized Russian companies operating in different industries with strong emphasis on customers' credit quality. CBM's retail business focuses on consumer loans and mortgage loans to high quality retail customers, with a particular emphasis on cross-sale of retail products to the employees and clients of its corporate customers.

As at 31 December 2016, CBM's total assets were RUB1,568.0 billion, total gross loans to customers amounted to RUB666.7 billion (with gross loans to corporate clients and gross loans to individuals accounting for 84.9% and 15.1% of total gross loans, respectively). CBM's total equity amounted to RUB103.4 billion as at 31 December 2016. CBM had a profit of RUB10.9 billion for 2016.

CBM has developed a strong cash handling platform which serves as an entry point to start new corporate customer relationships and enhance customer loyalty. Along with that, CBM's cash handling platform provides strategic benefits from a risk management perspective enabling CBM to monitor the cash flows of its corporate customers, thus supporting quality risk management and asset quality. In addition, the acquisition of INKAHRAN Group in 2015 has further reinforced CBM's position in the cash-handling services market. Through its multichannel distribution network, comprising offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its retail customers. CBM is focused on delivering customer-centred services, with quick and user friendly service and high levels of responsiveness. Coupled with such benefits in terms of retail banking business development as strong contribution to customer acquisition, advertising and cost efficiency, CBM's broad payment terminal network became a reliable risk management tool for retail lending providing CBM with an ability to understand consumer patterns and to cut off fraud applications for banking products based on its vast database of customers. As at 31 December 2016, CBM had 91 branches, 24 cash offices, over 1,026 ATMs and 5,725 payment terminals concentrated in the Moscow Area. See "*Business Operations – Distribution Network*".

CBM has "B1" long-term global and local currency deposit rating, "E+" financial strength rating and Ba3 counterparty risk assessment from Moody's. Fitch has assigned to CBM "BB" long-term issuer default and "B" short-term issuer default ratings. CBM also has "BB-" long-term counterparty default and "B" short-term counterparty default ratings from S&P.

Significant Factors Affecting Results of Operations and Financial Position

Economic Conditions in the Moscow Area and the Russian Federation

CBM's results of operations and financial condition are substantially affected by economic conditions in the Moscow Area, where substantially all of CBM's assets and customers are located, and in Russia generally, due to the nation-wide scale of business of CBM's large corporate customers, which are CBM's principal target group. These economic conditions are closely tied to the overall macroeconomic conditions in Russia. The Russian economy is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market lead to sharp decreases in revenues of the Russian Government and revenues of privately held Russian companies operating in these sectors, which, in turn, negatively impacts on the overall Russian economy.

The Russian economy faced a number of serious challenges in 2014 and 2015. According to experts from the World Bank, the Russian economy was impacted by two factors. In addition to a downturn in the economy which started in 2012, Russia faced two shocks which have significantly affected the economy. The first such shock was caused by the Russian integration over the recent years into the world economy through the exports of natural resources and, respectively, its dependence upon the world commodity markets. Starting from July 2014 to the end of 2015, oil prices decreased by more than half, which caused a shock to the Russian economy due to the deterioration in trade conditions for Russia and the significant devaluation of the Rouble against the U.S. Dollar and Euro. This in turn had a negative impact on the already weakening consumer confidence. The cost of credit increased as a result of actions of the CBR to tighten monetary policy, which resulted in further freezing of lending and a reduction of net interest margins in the banking sector. The second and more specific shock was related to the geopolitical tensions that began in March 2014 with respect to Ukraine and led to economic sanctions adopted against certain Russian individuals and entities by, among others, the EU and the U.S. Against the background of this tension, investors have become more cautious in investing in Russia and the cost of foreign loans for Russian banks and companies rose significantly. According to Rosstat, Russia's GDP growth slowed from 1.3% in 2013 to 0.7% in 2014. In 2015 and 2016, Russia's GDP declined by 3.7% and 0.2%, respectively. The price for Urals crude oil, Russia's export blend of crude, decreased from a high of U.S.\$109.6 per barrel on 25 June 2014 with a closing price of U.S.\$36.6 per barrel on 31 December 2015. The average price for Urals crude oil was U.S.\$41.9 per barrel in 2016, U.S.\$51.2 per barrel in 2015 and U.S.\$97.6 per barrel in 2014. While the Russian economy has been stabilising since the initial shock, these negative developments continued to affect the Russian economy in 2016.

As a result of these events, as well as capital outflow Russian Rouble significantly depreciated against U.S. Dollar and other currencies. The Rouble depreciated against the U.S. Dollar from RUB32.66 per U.S.\$1.00 as at 1 January 2014 to a closing rate of RUB56.26 per U.S.\$1.00 as at 31 December 2014, RUB72.9 per U.S.\$1.00 as at 31 December 2015 and RUB60.66 per U.S.\$1.00 as at 31 December 2016. The average exchange rate was RUB67.03 per U.S.\$1.00 in 2016, RUB60.96 per U.S.\$1.00 in 2015 and RUB38.42 per U.S.\$1.00 in 2014. In response to a significant volatility of the Russian Rouble at the end of 2014, the CBR increased its key rate from 10.5% to 17.0% in December 2014. Following the stabilisation of the market, the CBR has gradually reduced its key rate to 11.0% in August 2015, 10.5 per cent. in June 2016 and 10.0% in September 2016. As at the date of this Prospectus, the key rate of the CBR remains at the level of 10.0%.

According to Rosstat, a large portion of Russia's economic activity is concentrated in the Moscow Area and its gross regional product in 2016 accounted for more than a quarter of Russia's GDP. According to Rosstat, the Moscow Area also had a population of approximately 19.6 million in 2016, approximately 13% of Russia's total population, and the population growth in the Moscow Area was

1.1% in 2016 as compared to 0.2% for Russia. The average monthly income in Moscow in the first three quarters was RUB68,256, more than twice the Russian average, according to Rosstat.

CBM believes that the nature of the economic environment in the Moscow Area results in it being relatively less exposed to adverse macroeconomic trends than banks operating in other Russian regions. Nevertheless, during periods of deteriorating economic activity, the ability of CBM's borrowers to repay amounts due, and the value of the collateral that secures loans, may decrease. In particular, developments such as increased unemployment, rising inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and increased interest rates may adversely affect the ability of CBM's customers to repay loans. Reduced creditworthiness amongst CBM's customers also may tend to increase CBM's provision charge for loan impairment during such periods, possibly significantly, resulting in a possible decrease in net interest income and narrowing net interest margin. Conversely, CBM tends to make relatively lower provisions for loan impairment during periods characterised by stronger economic conditions.

Stronger economic conditions tend to result in increased demand for CBM's banking products and services, including loans, deposits, cash handling and trade finance, though in recent years the banking sector in Russia, and in the Moscow Area in particular, has been growing at a rate in excess of that of the Russian economy overall. According to the CBR, total loans extended by Russian banks increased by 28.2% in 2014, by 10.3% in 2015 and decreased by 6.9% in 2016, and total deposits of Russian banks increased by 25.4% in 2014, by 18.5% in 2015 and decreased by 3.5% in 2016. Any deterioration of the Russian economy affects the Russian banking sector as was illustrated by the reduction of profits, accumulation of losses and growth in the percentage of non-performing loans on balance sheets of Russian banks. The sanctions arising from the crisis in Ukraine also reduced, to a certain extent, the ability of Russian companies to raise new debt and/or refinance existing debt in international capital markets in 2014-2015. While CBM's business focuses on the Russian market, it has historically tapped wholesale capital and loan markets for funding, including term loans and deposits from other banks, issuance of debt securities, and loans and other borrowings. Investors' lack of confidence in the banking industry globally has caused volatility in wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks. From time to time, CBM has been unable to access international capital markets on commercially justifiable terms and relied primarily on customer deposits and domestic capital markets.

Expansion of Business

CBM's business has grown significantly in recent years, in excess of the rate of growth of the Russian banking market generally, as measured by assets, while CBM expects its business to continue its growth in the future at a slower pace, generally in line with the market. In light of Russian macroeconomic instability, CBM will focus on high-quality corporate customers in target industries and reliable retail customers with increased sale of banking products generating fee and commission income. CBM's total assets increased from RUB584,839 million as at 31 December 2014 to RUB1,208,201 million as at 31 December 2015 and RUB1,567,969 million as at 31 December 2016, and its total (Basel III) capital was RUB90,339 million as at 31 December 2014, RUB162,552 million as at 31 December 2015 and RUB159,806 million as at 31 December 2016. This growth has had a significant impact on CBM's results of operations, in particular leading to increased net interest income, as well as fee and commission income, reflecting the increased volume of banking operations.

CBM's corporate business has historically constituted the largest portion of its business. Total gross loans to corporate customers was RUB265,918 million as at 31 December 2014, RUB510,206 million as at 31 December 2015 and RUB566,168 million as at 31 December 2016. Corporate loan portfolio growth slowed down in 2016 as compared with previous periods due to CBM's selective approach to customers with a strong focus on quality of borrowers in light of continuing uncertainty in the Russian economy. CBM expects that its corporate loan portfolio will continue to expand in line with the

slower rate of growth in 2016. CBM intends to continue to focus on providing loans to companies operating in the oil and gas sector, as well as to enterprises in the industrial production sectors.

CBM's retail business has been gradually decreasing during the periods under review. CBM's gross loans to individuals was RUB128,273 million as at 31 December 2014, RUB119,733 million as at 31 December 2015 and RUB100,570 million as at 31 December 2016. The retail loan book has been decreasing due to the natural amortisation of the loan portfolio and tightened lending standards in light of deteriorating macroeconomic conditions. CBM intends to open new offices in the Moscow region to attract new high quality retail customers. While CBM expects that its retail loan portfolio may increase in line with the market, CBM will continue focusing on the quality of its loan book. CBM targets to maintain the proportion of the retail loan portfolio in the overall loan portfolio at the level as of 31 December 2016.

As part of its strategy, CBM intends to further increase fee and commission income. In addition to organic growth of fee and commission income as a result of increased volume of operations, the strategic acquisition of INKAKHRAN in November 2015 substantially increased fee and commission income from cash handling operations. INKAKHRAN is a group of companies, which provide a full range of cash handling services for financial institutions and private commercial companies.

Changes in Funding Base

During the period under review, the structure of CBM's funding base has significantly changed which correspondingly affected the structure of CBM's assets. Deposits by customers represent a principal source of funding which share materially increased from RUB334,852 million, or 63.8% of total liabilities, as at 31 December 2014 to RUB898,692 million, or 80.5% of total liabilities, as at 31 December 2015. In 2016, deposits by customers decreased from RUB898,692 million as at 31 December 2015 to RUB689,496 million as a result of a decrease in corporate deposits. The expansion of the deposit portfolio in 2015 as compared to 2014 is primarily explained by a significant increase in deposits by corporate customers due to an ample inflow of new large corporate customers.

Macroeconomic uncertainty in Russia restrained CBM's risk appetite and resulted in the increase of share of lower-risk assets such as liquid debt securities with high credit ratings and in-demand assets mainly consisting of reverse repo backed by highly liquid securities included in the CBR Lombard List. Thus, assets of CBM's treasury segment increased from RUB174,024 million, or 29.8% of total assets, as at 31 December 2014 to RUB557,506 million, or 46.2% of total assets, as at 31 December 2015 and RUB887,859 million, or 56.6% of total assets, as at 31 December 2016. While the changes in composition of CBM's assets resulted in the decrease of net interest margin, the generated liquidity cushion enabled CBM to significantly mitigate liquidity and credit risks without compromising the ability to fund further expansion of the loan portfolio.

Loan Portfolio and Provisioning

During periods of deteriorating economic activity, the ability of CBM's borrowers to repay amounts due, and the value of the collateral that secures loans, may decrease. In particular, developments such as reduced corporate liquidity and profitability, foreign currency exchange rates fluctuations, restrictions on funding, increased unemployment, rising inflation, increased corporate and personal insolvencies and increased interest rates may adversely affect the ability of CBM's customers to repay loans. Reduced creditworthiness amongst CBM's customers also may tend to increase CBM's provisions for loan impairment during such periods, possibly significantly, resulting in a possible decrease in CBM's net interest margin. At the same time, CBM's provisions for loan impairment are usually lower during periods characterised by stronger economic conditions.

In the period under review, CBM's loans to customers increased from RUB378,014 million as at 31 December 2014 to RUB593,065 million as at 31 December 2015 and RUB626,535 million as at 31 December 2016. CBM's loan impairment allowance also increased from RUB16,176 million as at 31 December 2014 to RUB36,874 million as at 31 December 2015 and RUB40,203 million as at 31 December 2016. As at 31 December 2016, the NPLs accounted for 2.3% of the total gross loan portfolio as compared to 5.1% of the total gross loan portfolio as at 31 December 2015 and 2.3% of the total gross loan portfolio as at 31 December 2014.

The increase in loan impairment allowance during the periods under review reflected deterioration of quality of CBM's loan portfolio as a reaction to the uncertain economic environment in Russia, and such conservative provisioning was in line with the market trend as a result of adverse macroeconomic factors. The significant increase in 2015 as compared to 2014 is primarily explained by a few corporate defaults by large companies that were the borrowers of CBM. As a result of such defaults, the loans were either restructured or written off. While some of these borrowers whose loans were restructured during 2016 commenced to service their indebtedness which resulted in the decrease of NPLs as at 31 December 2016 as compared to 31 December 2015, the loan impairment allowance has not correspondingly changed due to the CBM's provisioning policy. See – *“Risk Factors - The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition”*.

Volatility of Currencies

CBM is exposed to foreign currency rates volatility. Assets and liabilities of CBM are denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. CBM plans to continue to access the international capital markets and syndicated loan markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. In order to better balance the foreign currency structure of its assets and liabilities, currently CBM extends foreign currency loans only to customers that are engaged in businesses with foreign currency components. As at 31 December 2016, 74.8% of CBM's loans to customers were denominated in Roubles, 23.3% in U.S. dollars and the remaining 1.9% in other currencies.

For the year ended 31 December 2015, interest expense on debt securities issued increased by RUB3,644 million, or 47.0%, to RUB11,399 million from RUB7,755 million for the year ended 31 December 2014. Among the reasons for this growth was an increase in the average balance of debt securities issued from RUB89,697 million for the year ended 31 December 2014 to RUB119,972 million for the year ended 31 December 2015 primarily as a result of revaluation of U.S.\$-denominated Eurobonds following a significant depreciation of Russian Rouble in the fourth quarter of 2014.

In the year ended 31 December 2016, the Group's net foreign exchange gains amounted to RUB6,065 million as compared to net foreign exchange gains of RUB2,743 million in the year ended 31 December 2015 and net foreign exchange losses of RUB2,486 million in the year ended 31 December 2014. The foreign exchange gains in 2016 and 2015 were one of the items that positively impacted on the Group's non-interest income in the periods under review. These are one-off events that may not reoccur in the future. Nevertheless, any depreciation of the Rouble against the U.S. Dollar could negatively affect CBM in a number of ways, including, among other things, by increasing the actual cost to CBM of financing its U.S. Dollar based liabilities and by making it more difficult for Russian borrowers to service their U.S. Dollar loans. See *“Risk Factors — Risks Relating to CBM's Business and Industry — Devaluation of the Rouble against the U.S. Dollar and other currencies may have a material adverse effect on CBM's business”*.

Interest Rate Environment, Funding Costs and Narrowing Net Interest Margin

Movements in short and long-term interest rates have affected both CBM's interest income and interest expense, as well as CBM's level of gains and losses on its securities portfolio. The interest rate environment in the Russian Federation reflects factors such as expectations regarding inflation, changes in interest rates set by the CBR, and conditions in international financial markets. High-rate inflation and competition for high-profile customers, particularly during periods when banks operating in Russia may have reduced access to wholesale funding markets, tend to raise interest rates payable on new customer deposits for banks operating in the Russian market, while competitive pressures, concerns about customer defaults and fixed rates on existing loan commitments and facilities may restrict CBM's ability to increase interest rates on loans, primarily to retail customers. During the period under review, CBM has generally been able to offset volatile interest rates payable on deposits with respectively adjusted interest rates on corporate loans. This was achieved as a result of short-term nature of the loan portfolio, though with apparent trend towards increase of maturities of new loans origination, as well as the proved ability to renegotiate contract interest rates with corporate clients in the CBM's favour. In addition, CBM has been able to manage its funding costs through competent management of the weighted maturity and profitability of the liability base. Accordingly, as following macroeconomic trends affecting Russian banking market, margins narrowed noticeably overall in the industry. CBM's net interest margin has been decreasing from 5.8% for 2014 to 3.9% for 2015 and further to 3.3% for 2016, nevertheless, outpacing most of its peers and therefore evidencing the ability to adapt to the changing macroeconomic environment. A decline in net interest margin in 2016 and 2015 is explained by the increase of share of assets with lower interest rates in CBM's securities portfolio (such as debt securities) as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia, as well as increased funding costs as a result of unfavourable interest rate environment.

Segmentation

CBM has four reportable segments which are strategic business units. These strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion;
- Retail banking: comprises retail demand and term deposit services; retail lending, including car loans, mortgages and other loans to individuals, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals;
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes; and
- Cash operations: comprises all operations connected with cash, cash handling, calculation and transportation.

Recent Developments

On 20 March 2017, the Issuer, at the request of CBM, announced the Tender Offer. Following the expiration of the Tender Offer, the Issuer accepted for purchase the Existing Notes in aggregate principal amount of U.S.\$393,795,000. The Tender Offer will be settled on or about 3 April 2017.

In March 2017 CBM signed a syndicated loan facility agreement for up to U.S.\$500 million with a number of international and local financial institutions. The facility matures in March 2018 and bears floating rates with reference to LIBOR (with respect to a U.S.\$-denominated facility) and EURIBOR (with respect to a EUR-denominated facility). The principal portion of the dual-tranche facility has been disbursed on 31 March 2017 with the disbursement of the remaining part under the facility with identical principal terms expected in April 2017.

Results of Operations for the Years Ended 31 December 2016, 2015 and 2014

For the year ended 31 December 2016, CBM's profit for the period increased by RUB9,365 million to RUB10,874 million from RUB1,509 million for the year ended 31 December 2015, which in turn was a decrease by RUB4,060 million, or 72.9%, from RUB5,569 million for the year ended 31 December 2014.

The following table sets forth the components of CBM's profit for the period for the years indicated.

	Year ended 31 December		
	2016	2015	2014
	(RUB millions)		
Interest income	113,398	89,211	58,183
Interest expense	(73,099)	(59,922)	(32,301)
Net interest income	40,299	29,288	25,882
Provision for impairment of loans	(29,783)	(26,036)	(11,645)
Net interest income after provision for impairment of loans	10,516	3,253	14,237
Fee and commission income	13,394	9,343	9,027
Fee and commission expense	(2,247)	(1,718)	(1,736)
Net gain (loss) on financial instruments at fair value through profit or loss	235	1,202	(2,109)
Net realised (loss) gain and impairment of available-for-sale assets	1,208	(401)	(189)
Net foreign exchange gains (losses)	6,065	2,743	(2,486)
State deposit insurance scheme contributions	(920)	(708)	(568)
Other operating (loss) income, net	703	(523)	468
Non-interest income	18,438	9,938	2,407
Operating income	28,954	13,190	16,644
Salaries and employment benefits	(7,700)	(5,519)	(5,335)
Administrative expenses	(5,260)	(4,201)	(3,719)
Depreciation of property and equipment	(1,481)	(618)	(530)
Provisions for impairment of other assets and credit related commitments	(778)	(908)	(43)
Operating expense	(15,219)	(11,246)	(9,627)
Profit before income taxes	13,735	1,945	7,017
Income tax	(2,861)	(435)	(1,448)
Profit for the period	10,874	1,509	5,569
Other comprehensive income (loss) for the year, net of tax	188	1,151	(1,240)
Total comprehensive income for the year	11,062	2,660	4,329
Basic and diluted earnings per share (in RUB per share)	0.46	0.09	0.38

Interest Income

For the year ended 31 December 2016, CBM's interest income increased by RUB24,187 million, or 27.1%, to RUB113,398 million from RUB89,211 million for the year ended 31 December 2015, which in turn was an increase of RUB31,028 million, or 53.3%, from RUB58,183 million for the year ended 31 December 2014.

The following table sets forth the principal components of CBM's interest income for the years indicated.

Year ended 31 December		
2016	2015	2014

	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Interest income						
Loans to customers, <i>of which</i>						
Corporate	63,182	55.7%	48,792	54.7%	31,025	53.3%
Individuals	18,637	16.4%	21,501	24.1%	19,791	34.0%
Due from credit and other financial institutions and the CBR.....	19,450	17.2%	9,170	10.3%	2,094	3.6%
Debt securities ⁽¹⁾	12,130	10.7%	9,748	10.9%	5,273	9.1%
Total interest income.....	113,398	100.0%	89,211	100.0%	58,183	100.0%
Average yield on interest- earning assets (%)⁽²⁾		9.2%		11.8%		13.0%

Notes:

⁽¹⁾ Includes financial instruments at fair value through profit or loss and available-for-sale securities.

⁽²⁾ Calculated as the ratio of total interest income to average interest-earning assets. See “*Selected Statistical Information*”.

The increases in CBM’s interest income during the periods under review resulted primarily from increases in interest income from loans to customers and due from credit and other institutions. While average balance of interest-earning assets increased from RUB448,002 million for the year ended 31 December 2014 to RUB753,382 million for the year ended 31 December 2015 and RUB1,232,737 million for the year ended 31 December 2016, average yield on interest-earning assets decreased gradually from 13.0% for the year ended 31 December 2014 to 11.8% for the year ended 31 December 2015 and further to 9.2% for the year ended 31 December 2016. The decrease of average yield on interest-earning assets reflects the increase of the share of assets with lower interest rates in CBM’s securities portfolio (such as debt securities and interbank assets) as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia.

Interest Income on Loans to Customers

The majority of CBM’s interest income received in the periods under review was attributable to interest income on loans to customers. Interest income on loans to customers represented 72.2%, 78.8% and 87.3% of total interest income for the years ended 31 December 2016, 2015 and 2014, respectively.

For the year ended 31 December 2016, interest income on loans to customers increased by RUB11,526 million, or 16.4%, to RUB81,818 million from RUB70,293 million for the year ended 31 December 2015. This increase was primarily attributable to an increase in interest income on loans to corporate customers as a result of increased lending volumes to corporate customers in line with CBM’s strategy to expand its loan portfolio organically to existing corporate clients. The average balance of loans to customers increased to RUB600,623 million for the year ended 31 December 2016 from RUB456,789 million for the year ended 31 December 2015. CBM’s average yield on loans to customers decreased to 13.6% for the year ended 31 December 2016 from 15.4% for the year ended 31 December 2015 due to decreasing interest rates on corporate loans in line with the market trend as a result of the lower interest rate environment due to the decreasing CBR key rate. During 2016, the declining key rate of the CBR affected cost of funding, on the one hand, and interest rates on loans to customers, on the other hand. CBM intentionally decreased interest rates on granted loans in order to maintain the high quality of the loan portfolio by attracting reliable customers via providing favourable conditions, while the decreased cost of funding enabled CBM to lower interest rates and maintain a comfortable level of profitability at the same time.

For the year ended 31 December 2015, interest income on loans to customers increased by RUB19,477 million, or 38.3%, to RUB70,293 million from RUB50,816 million for the year ended 31

December 2014. This increase was primarily attributable to an increase in interest income on loans to corporate customers as a result of increased lending volumes to corporate customers in line with CBM's strategy to acquire large corporate clients. The average balance of loans to customers increased to RUB456,789 million for the year ended 31 December 2015 from RUB342,837 million for the year ended 31 December 2014. CBM's average yield on loans to customers increased to 15.4% for the year ended 31 December 2015 from 14.8% for the year ended 31 December 2014 due to increased interest rates on corporate loans in line with the market trend as a result of the higher interest rate environment, which was offset by stable interest rates in the retail loan portfolio.

Interest Income on Due from Credit and Other Financial Institutions and the CBR

Interest income on due from credit and other financial institutions and the CBR represented 17.2%, 10.3% and 3.6% of total interest income for the years ended 31 December 2016, 2015 and 2014, respectively.

For the year ended 31 December 2016, interest income on due from credit and other financial institutions and the CBR increased by RUB10,280 million, or 112.1%, to RUB19,450 million from RUB9,170 for the year ended 31 December 2015, which in turn was an increase of RUB7,076 million, or 337.9%, from RUB2,094 million for the year ended 31 December 2014.

These increases were due to increased volumes of transactions on the interbank lending and repo markets as part of CBM's liquidity management. The average balance of due from credit and other financial institutions and the CBR increased from RUB46,834 million for the year ended 31 December 2014 to RUB201,765 million for the year ended 31 December 2015 and further to RUB487,647 million for the year ended 31 December 2016. CBM's average yield decreased from 4.5% for each of the years ended 31 December 2015 and 2014 to 4.0% for the year ended 31 December 2016. This decrease was primarily a result of the lower interest rate environment due to excess liquidity in the Russian interbank lending market due to the stabilisation of the Russian economy.

Interest Income on Debt Securities

Interest income on debt securities (includes financial instruments at fair value through profit or loss and available-for-sale securities) represented 10.7%, 10.9% and 9.1% of total interest income for the years ended 31 December 2016, 2015 and 2014, respectively.

For the year ended 31 December 2016, interest income on debt securities increased by RUB2,382 million, or 24.4%, to RUB12,130 million from RUB9,748 million for the year ended 31 December 2015, reflecting increased average balances of debt securities, while the average interest rate received by CBM on debt securities decreased to 8.4% for the year ended 31 December 2016 from 10.3% for the year ended 31 December 2015. The increase in the securities portfolio reflects the continued implementation of CBM's strategy to apply available cash to assets with lower interest rates (such as debt securities) as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia while the decrease in average interest rates on debt securities was mainly due to the lower interest rate environment in 2016 as compared to 2015 due to the stabilisation of the Russian economy.

For the year ended 31 December 2015, interest income on debt securities increased by RUB4,475 million, or 84.9%, to RUB9,748 million from RUB5,273 million for the year ended 31 December 2014, reflecting increased average balances of debt securities, as well as increase in the average interest rate received by CBM on debt securities to 10.3% for the year ended 31 December 2015 from 9.0% for the year ended 31 December 2014. The increase in securities portfolio reflects the CBM's strategy to apply available cash to assets with lower interest rates (such as debt securities) as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia.

See also “- *Financial Condition - Total Assets - Securities Portfolio*”.

Interest Expense

For the year ended 31 December 2016, CBM’s total interest expense increased by RUB13,177 million, or 22.0%, to RUB73,099 million from RUB59,922 for the year ended 31 December 2015, which in turn was an increase of RUB27,621 million, or 85.5%, from RUB32,301 million for the year ended 31 December 2014. The following table sets forth the principal components of CBM’s interest expense for the years indicated.

	Year ended 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Deposits by customers.....	53,928	73.8%	44,195	73.8%	21,151	65.5%
Debt securities issued.....	10,773	14.7%	11,399	19.0%	7,755	24.0%
Deposits by credit and other financial institutions and the CBR.....	8,398	11.5%	4,328	7.2%	3,395	10.5%
Total interest expense.....	73,099	100.0%	59,922	100.0%	32,301	100.0%
Average rate on interest- bearing liabilities(%)⁽¹⁾	5.9%		8.0%		7.4%	

Note:

⁽¹⁾ Calculated as the ratio of total interest expense to average interest-bearing liabilities. See “*Selected Statistical Information*”.

The overall increase in CBM’s interest expense during the periods under review mainly resulted from increases in interest expense on deposits by customers. The average interest rate paid by CBM on interest-bearing liabilities was 5.9%, 8.0% and 7.4% for the years ended 31 December 2016, 2015 and 2014, respectively.

Interest Expense on Deposits by Customers

Interest expense on deposits by customers was the largest component of CBM’s total interest expense during the periods under review, representing 73.8%, 73.8% and 65.5% of total interest expense for the years ended 31 December 2016, 2015 and 2014, respectively.

For the year ended 31 December 2016, interest expense on deposits by customers increased by RUB9,733 million, or 22.0%, to RUB53,928 million from RUB44,195 million for the year ended 31 December 2015. The growth of interest expense on deposits by customers was due to an increase in the average balance of deposits by customers from RUB526,148 million for 2015 to RUB858,548 million in 2016 as a result of the inflow of deposits from large corporate customers and individuals, while the average interest rate paid by CBM on deposits by customers decreased from 8.4% in 2015 to 6.3% in 2016 in line with the market trend due to improved interest rate environment. As at 31 December 2016, CBM’s deposits by customers was RUB689,496 million, representing a decrease from RUB898,692 million as at 31 December 2015. This decrease is primarily explained by a scheduled repayment of certain deposits placed by one counterparty at the end of 2016 which have been equally replaced by the same counterparty in the first quarter of 2017.

For the year ended 31 December 2015, interest expense on deposits by customers increased by RUB23,044 million, or 108.9%, to RUB44,195 million from RUB21,151 million for the year ended 31 December 2014. The growth of interest expense on deposits by customers was due to (i) the increase in the average balance of deposits by customers from RUB297,007 million in 2014 to RUB526,148 million in 2015 as a result of a significant increase in term deposits caused by inflow of deposits from new large corporate customers, which was in line with CBM’s strategy and (ii) the increase in the

average interest rate paid by CBM on deposits by customers from 7.1% in 2014 to 8.4% in 2015 as a result of higher interest rates on the market.

As at 31 December 2016, CBM had one counterparty whose demand and term deposits amounted to RUB243,280 million as compared to two counterparties whose demand and term deposits amounted to RUB493,627 million as at 31 December 2015.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 14.7%, 19.0% and 24.0% of total interest expense for the years ended 31 December 2016, 2015 and 2014, respectively.

For the year ended 31 December 2016, interest expense on debt securities issued decreased by RUB626 million, or 5.5%, to RUB10,773 million from RUB11,399 million for the year ended 31 December 2015. This decrease was due to the decrease in the average interest rate on CBM's debt securities issued from 9.5% in 2015 to 9.2% in 2016 as a result of improved interest rate environment, devaluation of U.S.\$-denominated Eurobonds as a result of gradual appreciation of the Rouble, as well as the insignificant decrease in the average balance of debt securities issued from RUB119,972 million in 2015 to RUB116,647 million in 2016.

For the year ended 31 December 2015, interest expense on debt securities issued increased by RUB3,644 million, or 47.0%, to RUB11,399 million from RUB7,755 million for the year ended 31 December 2014. This growth was due to (i) an increase in the average balance of debt securities issued from RUB89,697 million for the year ended 31 December 2014 to RUB119,972 million for the year ended 31 December 2015 as a result of issue of RUB-denominated bonds on the local market, as well as revaluation of U.S.\$-denominated Eurobonds following a significant depreciation of Russian Rouble in the fourth quarter of 2014, and (ii) an increase in the average interest rate on CBM's debt securities issued from 8.6% for the year ended 31 December 2014 to 9.5% for the year ended 31 December 2015. See – “- *Significant Factors Affecting Results of Operations and Financial Position - Volatility of Currencies*”.

Interest Expense on Deposits by Credit and other Financial Institutions and the CBR

Interest expense on deposits by credit and other financial institutions and the CBR represented 11.5%, 7.2% and 10.5% of total interest expense for the years ended 31 December 2016, 2015 and 2014, respectively.

For the year ended 31 December 2016, interest expense on deposits by credit and other financial institutions and the CBR increased by RUB4,074 million, or 94.1%, to RUB8,398 million from RUB4,328 for the year ended 31 December 2015, which in turn was an increase of RUB933 million, or 27.5%, from RUB3,395 million for the year ended 31 December 2014. These increases were due to increases in the average balance of deposits by credit and other financial institutions and the CBR to RUB253,989 million for the year ended 31 December 2016 from RUB100,875 million for the year ended 31 December 2015 and RUB50,161 million for the year ended 31 December 2014, which are explained by funding requirements to finance the growth of business, as well as diversification of the funding base. The average interest rate paid by CBM on deposits by credit and other financial institutions and the CBR was 3.3%, 4.3% and 6.8% for the years ended 31 December 2016, 2015 and 2014, respectively.

Net Interest Income

Net interest income has historically been the largest component of CBM's operating income. The following table sets forth CBM's net interest income before provision for impairment of loans for the years indicated.

	Year ended 31 December		
	2016	2015	2014
	(RUB millions, except percentages)		
Interest income	113,398	89,211	58,183
Interest expense	(73,099)	(59,922)	(32,301)
Net interest income before provision for impairment of loans ..	40,299	29,289	25,882
Net interest margin⁽¹⁾	3.3%	3.9%	5.8%

Note:

⁽¹⁾ This measure is an APM. Net interest margin is calculated as the ratio of net interest income before provision for impairment of loans to average interest-earning assets (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”). See “Selected Statistical Information”.

For the year ended 31 December 2016, net interest income before provision for impairment of loans increased by RUB11,010 million, or 37.6%, to RUB40,299 million from RUB29,289 million for the year ended 31 December 2015, which in turn was an increase of RUB3,407 million, or 13.2%, from RUB25,882 million for the year ended 31 December 2014. CBM’s net interest margin was 3.3%, 3.9% and 5.8% for the years ended 31 December 2016, 2015 and 2014, respectively. A significant decline in net interest margin in 2015 as compared to 2014 is explained by the increase of share of assets with lower interest rates in CBM’s securities portfolio (such as debt securities) as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia, as well as increased funding costs as a result of unfavourable interest rate environment. For the same reasons, the net interest margin continued to decrease in 2016 as compared to 2015.

Provision for Impairment of Loans

Provision for impairment of loans represents the provision charge for loans to customers during a given period. The following table sets forth the breakdown of CBM’s provision for impairment of loans for the years indicated.

	Year ended 31 December		
	2016	2015	2014
	RUB millions		
Provision for impairment on:			
Loans to corporate customers	22,579	20,539	4,812
Auto loans	-	156	153
Mortgage loans	801	596	122
Credit card loans	237	218	556
Consumer loans	6,166	4,527	6,002
Total loans to individuals	7,205	5,497	6,833
Total provision for impairment of loans	29,783	26,036	11,645

For the year ended 31 December 2016, CBM recognised a provision for impairment of loans of RUB29,783 million, an increase of RUB3,747 million, or 14.4%, from RUB26,036 million for the year ended 31 December 2015, which in turn was an increase of RUB14,391 million, or 123.6%, from RUB11,645 million for the year ended 31 December 2014. The ratio of loan impairment allowance to NPLs fluctuated and was 263.3%, 113.7% and 178.4% as at 31 December 2016, 2015 and 2014, respectively. The significant increase in provision for impairment of loans in 2015 as compared to 2014 reflected deterioration of quality of CBM’s loan portfolio originated prior to commencement of economic instability as a reaction to the uncertain economic environment in Russia, and such conservative provisioning was in line with the market trend as a result of adverse macroeconomic factors. In addition, this significant increase is also explained by a few corporate defaults by large companies that were the borrowers of CBM. As a result of such defaults, the loans were either restructured or written off. CBM’s management believes that the level of impairment allowance as at 31 December 2016 covers all significant overdue loans. Since 31 December 2016, there have been no

major loans that required creation of provision for impairment of loans. See also “— *Financial Position — Past Due Loans — Impairment Allowance*”.

Non-interest Income

The table below sets forth the components of CBM’s non-interest income for the periods indicated.

	Year ended 31 December		
	2016	2015	2014
	RUB millions, except percentages		
Fee and commission income	13,394	9,343	9,027
Fee and commission expense	(2,247)	(1,718)	(1,736)
Net gain (loss) on financial instruments at fair value through profit or loss	235	1,202	(2,109)
Net realised gain (loss) and impairment of available-for-sale assets	1,208	(401)	(189)
Foreign exchange gains (losses)	6,065	2,743	(2,486)
State deposit insurance scheme contributions	(920)	(708)	(568)
Operating lease income	1,252	42	0
Other operating (loss) income, net	(549)	(564)	468
Non-interest income	18,438	9,938	2,407
Non-interest income as % of operating income	63.7%	75.3%	14.5%

Fee and Commission Income

The largest source of CBM’s non-interest income is its fee and commission income. CBM’s fee and commission income primarily comprises commissions generated by cash handling, plastic cards, guarantees and letters of credit, insurance contracts processing, settlements and wire transfers and other cash operations.

The following table sets forth the components of CBM’s fee and commission income for the years indicated.

	Year ended 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Cash handling ⁽¹⁾	2,589	19.3%	1,546	16.6%	1,247	13.8%
Plastic cards	2,384	17.8%	1,923	20.6%	1,632	18.1%
Guarantees and letters of credit	2,009	15.0%	1,592	17.0%	1,716	19.0%
Insurance contracts processing	1,932	14.4%	1,276	13.7%	2,047	22.7%
Settlements and wire transfers	1,755	13.1%	1,041	11.1%	1,614	17.9%
Other cash operations ⁽²⁾	1,655	12.4%	924	9.9%	344	3.8%
Currency exchange commission	473	3.5%	353	3.8%	221	2.4%
Other fee and commission income	597	4.5%	688	7.3%	206	2.3%
Total fee and commission income	13,394	100.0%	9,343	100.0%	9,027	100.0%

Notes:

⁽¹⁾ Includes fees from cash handling and related services such as crediting of clients’ cash to their bank accounts, calculation of cash amounts, delivery of bank cheques and delivery of fractional currency (bank notes and coins).

⁽²⁾ Includes ATM access fees, fees on recalculation and verification of bank notes and fees for preparation of cash for delivery to clients’ cash offices.

CBM’s total fee and commission income increased by RUB4,051 million, or 43.4%, to RUB13,394 million for the year ended 31 December 2016 from RUB9,343 million for the year ended 31 December 2015. The increase was attributable to the increases in almost all components of fee and commission income, including primarily due to (i) cash handling following further expansion of CBM’s cash handling business, as a result of the acquisition of INKAKHRAN in November 2015, (ii) plastic card operations due to the growth of the plastic card business, (iii) guarantees and letters of

credit due to increased demand for documentary services, (iv) insurance contract processing due to increased fees in line with the market and a slight recovery of the retail market due to the key rate decrease and improvement of the macroeconomic situation, (v) settlements and wire transfers due to increased transactions and (vi) other cash operations due to continued development of the payment terminals network. The increase in fee and commission income reflects CBM's strategy to develop fee and commission products that do not impact the net interest margin. Moreover, CBM increased fees on a number of its products in line with the market.

For the year ended 31 December 2015, CBM's total fee and commission income increased by RUB316 million, or 3.5%, to RUB9,343 million from RUB9,027 million for the year ended 31 December 2014. The increase was primarily attributable to the increases in the volume of (i) other cash operations due to the continued development of payment terminals network, (ii) plastic card operations due to the growth of plastic card business, and (iii) cash handling due to further expansion of CBM's cash handling business, particularly as a result of the acquisition of INKAKHRAN in November 2015. The increase in fee and commission income was partially offset by the decrease in income generated by insurance contracts processing due to a controlled slowdown of retail loans origination to mitigate increased risks, and, to a lesser extent, a decrease in settlements and wire transfers.

Fee and Commission Expense

For the year ended 31 December 2016, fee and commission expense increased by RUB529 million, or 30.8%, to RUB2,247 million from RUB1,718 million for the year ended 31 December 2015. The increase of fee and commission expense in 2016 as compared to 2015 is primarily attributable to the growth in settlements, wire transfers and plastic cards as a result of further development of CBM's plastic cards business and an increase in the number of transactions with plastic cards, which resulted in an increase in the volume of commissions paid to payment card companies.

For the year ended 31 December 2015, fee and commission expense insignificantly decreased by RUB18 million, or 1.0%, to RUB1,718 million from RUB1,736 million for the year ended 31 December 2014.

Net Fee and Commission Income

For the reasons described above, for the year ended 31 December 2016, CBM had net fee and commission income of RUB11,147 million as compared to net fee and commission income of RUB7,625 million for the year ended 31 December 2015 and RUB7,291 million for the year ended 31 December 2014.

Net Gain (Loss) on Financial Instruments at Fair Value Through Profit or Loss

For the year ended 31 December 2016, CBM had a net gain on financial instruments at fair value through profit or loss of RUB235 million as compared to a net gain of RUB1,202 million for the year ended 31 December 2015 and net loss of RUB2,109 million for the year ended 31 December 2014. The decrease in net gain for 2016 as compared to 2015 was due to negative revaluation of the securities portfolio. The net gain in the year ended 31 December 2015 was primarily attributable to recovery of the Russian financial markets following decline in previous periods and positive revaluation of securities portfolio. The net loss for the year ended 31 December 2014 was attributable to an unrealised loss from securities portfolio revaluation against the backdrop of an unfavourable situation in the financial markets. CBM does not engage in transactions with securities for speculative purposes.

Net Realised (Loss) Gain on Available-for-sale Assets

CBM's available-for-sale assets are government, municipal and corporate bonds. CBM had a net gain on available-for-sale securities of RUB1,208 million for the year ended 31 December 2016 mainly due to the changes in market valuation of the securities portfolio.

In the years ended 31 December 2015 and 2014, CBM had a net loss of RUB401 million and RUB189 million, respectively. These fluctuations reflect changes in the market valuation of the securities. CBM does not engage in transactions with securities for speculative purposes.

Net Foreign Exchange Gains (Losses)

CBM's income or expense from net foreign exchange gains or losses primarily represents net gains or losses from currency transactions, net gains or losses on open foreign currency positions and the purchasing and selling by CBM of currency derivatives for hedging the currency risks of its clients. CBM generates income from net foreign exchange transactions where CBM's sale price for a particular instrument is higher than its purchase price, and typically incurs losses on its derivative transactions, which are hedging expenses incurred in order to limit CBM's foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes.

CBM had a net foreign exchange gain of RUB6,065 million for the year ended 31 December 2016 as compared to a net foreign exchange gain of RUB2,743 million for the year ended 31 December 2015 and a net foreign exchange loss of RUB2,486 million for the year ended 31 December 2014. The net foreign exchange gains for the years ended 31 December 2016 and 2015 were mainly due to income generated from swap contracts, as well as from currency conversion operations conducted by CBM on behalf of its customers. These are one-off events that may not reoccur in the future. In 2014, due to a significant depreciation of Rouble against U.S. dollar in the late 2014, CBM had a net foreign exchange loss. See "*Risk Management – Market Risk – Currency Risk*".

State Deposit Insurance Scheme Contributions

State deposit insurance scheme contributions include amounts that CBM pays for membership in the state mandatory system of retail deposit insurance, and are assessed in proportion to the volume of deposits by retail customers. Such contributions increased by RUB212 million, or 29.9%, to RUB920 million from RUB708 million for the year ended 31 December 2015, which in turn was an increase of RUB140 million, or 24.6%, from RUB568 million for the year ended 31 December 2014. The increases are explained by the growth of CBM's retail deposit portfolio.

Operating Lease Income

For the year ended 31 December 2016, CBM's operating lease income was RUB1,252 million as compared to RUB41 million for the year ended 31 December 2015. The significant increase was due to an increase in income from the operating lease of an aircraft acquired by CBM in 2015 as a result of enforcement of collateral under letters of credit. For the purposes of operating leasing of aircraft, CBM established a subsidiary, CBM Ireland Leasing Limited.

Other Operating (Loss) Income, Net

For the year ended 31 December 2016, CBM's other operating loss was RUB549 million as compared to other operating loss of RUB565 million for the year ended 31 December 2015 and other operating income of RUB468 million for the year ended 31 December 2014. The other operating loss and prior decrease in other operating income primarily reflected the devaluation of assets for sale and goodwill devaluation.

Operating Expense

The following table sets forth the principal components of CBM's operating expenses for the years indicated.

	Year ended 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Salaries and employment benefits	7,700	50.6%	5,519	49.0%	5,335	55.4%
Administrative expenses	5,260	34.6%	4,201	37.4%	3,719	38.6%
Depreciation of property and equipment.....	1,481	9.7%	618	5.5%	530	5.5%
Recovery of (provision for) impairment of other assets and credit related commitments	778	5.1%	908	8.1%	43	0.5%
Total operating expense	15,219	100.0%	11,246	100.0%	9,627	100.0%
Cost-to-income ratio (%)⁽¹⁾	24.6%		26.4%		33.9%	

Note:

- (1) This measure is an APM. Cost-to-income ratio is calculated as operating expense (excluding recovery of (provision for) impairment of other assets and credit related commitments) divided by operating income (excluding net provision charge for loan impairment).

For the year ended 31 December 2016, CBM's operating expense increased by RUB3,973 million, or 35.3%, to RUB15,219 million from RUB11,246 million for the year ended 31 December 2015, which in turn was an increase of RUB1,619 million, or 16.8%, from RUB9,627 million for the year ended 31 December 2014. These increases were primarily due to the increases in salaries and employment benefits, administrative expenses and depreciation of property and equipment.

CBM's cost-to-income ratio was 24.6%, 26.4% and 33.9% for the years ended 31 December 2016, 2015 and 2014, respectively. The decrease in this ratio in 2016, 2015 and 2014 was primarily driven by improved operational efficiency which resulted in an increase in operating income that exceeded the increase in operating expenses.

Salaries and Employment Benefits

	Year ended 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Salaries	6,082	79.0%	4,287	77.7%	4,263	79.9%
Social security costs	1,517	19.7%	1,103	20.0%	954	17.9%
Other	101	1.3%	129	2.3%	118	2.2%
Total salaries and employment benefits	7,700	100.0%	5,519	100.0%	5,335	100.0%

Salaries and employment benefits increased by RUB2,181 million, or 39.5%, to RUB7,700 million for the year ended 31 December 2016 from RUB5,519 for the year ended 31 December 2015, which in turn was an increase of RUB184 million, or 3.4%, from RUB5,335 million for the year ended 31 December 2014. These increases were primarily due to an increase in the number of employees as a result of the expansion of CBM's business and were also due to salary increases resulting from competition in the market for qualified personnel. CBM had 6,392 employees as at 31 December 2016, 6,212 as at 31 December 2015 and 4,683 as at 31 December 2014. The increase in the number of employees in the year ended 31 December 2015 is explained by acquisition of INKAKHRAN (1,114 employees as at 31 December 2015). Due to the fact that the acquisition was made in November 2015, the respective salaries and employment benefits did not affect profit and loss statements for the year ended 31 December 2015.

Administrative Expenses

	Year ended 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Occupancy.....	1,121	21.3%	816	19.4%	944	25.4%
Advertising and business development.....	907	17.2%	922	21.9%	841	22.6%
Property maintenance.....	660	12.5%	396	9.4%	358	9.6%
Security.....	619	11.8%	349	8.3%	299	8.1%
Operating taxes.....	586	11.1%	531	12.6%	574	15.4%
Write-off of low value fixed assets....	336	6.4%	91	2.2%	174	4.7%
Communications.....	185	3.5%	129	3.1%	101	2.7%
Property insurance.....	183	3.5%	92	2.9%	81	2.2%
Legal and consulting services.....	182	3.5%	96	2.3%	—	—
Computer maintenance and software expenses.....	164	3.1%	166	4.0%	109	2.9%
Transport.....	123	2.3%	272	6.5%	98	2.6%
Loss on revaluation of buildings	69	1.3%	224	5.3%	—	—
Other.....	125	2.4%	116	2.8%	140	3.8%
Administrative expenses	5,260	100.0%	4,201	100.0%	3,719	100.0%

For the year ended 31 December 2016, CBM's administrative expenses increased by RUB1,059 million, or 25.2%, to RUB5,260 million from RUB4,201 for the year ended 31 December 2015, which in turn was an increase of RUB482 million, or 13.0%, from RUB3,719 million for the year ended 31 December 2014. The increases reflect the expansion of CBM's corporate and retail banking activities, the diversification of the products and services offered by CBM to its customers, further development of branch network (including ATMs and payment terminals) and the growth of cash handling services provided to CBM's customers.

Occupancy. For the year ended 31 December 2016, CBM's occupancy expenses increased by RUB305 million, or 37.4%, to RUB1,121 million from RUB816 million for the year ended 31 December 2015, which in turn was a decrease of RUB128 million, or 13.6%, from RUB944 million for the year ended 31 December 2014. The increase reflected expansion of distribution network, as well as the effect of consolidation of INKAKHRAN and SKS Bank premises. Notwithstanding the continued expansion of distribution network, the decrease in occupancy expenses in 2015 as compared to 2014 was primarily attributable to the CBM's efforts on effective cost management and a decrease in the costs of renting offices as a result of overall decline in the renting market for commercial real estate due to the downturn in Russian economy.

Advertising and business development. For the year ended 31 December 2016, CBM's advertising and business development expenses decreased by RUB15 million, or 1.6%, to RUB907 million from RUB922 million for the year ended 31 December 2015, which in turn was an increase of RUB81 million, or 9.6%, from RUB841 million for the year ended 31 December 2014. The decrease in 2016 primarily reflects CBM's spending optimisation coupled with the downturn in the Russian economy, which resulted in an overall price decline in the advertising industry. The increase in CBM's advertising and business development expenses for 2015 as compared to 2014 reflects the growth of advertising activities by CBM through a variety of promotional channels during these periods, which was in line with CBM's aggressive marketing strategy during this period.

Property maintenance. For the year ended 31 December 2016, property maintenance expenses increased by RUB264 million, or 66.7%, to RUB660 million from RUB396 million for the year ended 31 December 2015, which in turn was an increase of RUB38 million, or 10.6%, from RUB358 million for the year ended 31 December 2014. The increase primarily resulted from the acquisition of INKAKHRAN and also the expansion of CBM's distribution network.

Security. For the year ended 31 December 2016, expenses relating to security increased by RUB270 million, or 77.4%, to RUB619 million from RUB349 million for the year ended 31 December 2015, which in turn was an increase of RUB50 million, or 16.7%, from RUB299 million for the year ended 31 December 2014. These increases are explained primarily by related expenses following the growth of CBM's cash handling business mainly due to the acquisition of INKAKHRAN.

Operating taxes. For the year ended 31 December 2016, operating taxes increased by RUB55 million, or 10.4%, to RUB586 from RUB 531 for the year ended 31 December 2015, which in turn was a decrease of RUB43 million, or 7.5%, from RUB574 million for the year ended 31 December 2014. The dynamics of operating taxes in the periods under review primarily reflects VAT charges.

Write-off of Low Value Fixed Assets. For the year ended 31 December 2016, write-off of low value fixed assets increased by RUB245 million, or 269.2%, to RUB336 from RUB91 million due to the acquisition of INKAKHRAN for the year ended 31 December 2015, which in turn was a decrease of RUB83 million, or 91.2%, from RUB174 million for the year ended 31 December 2014.

Depreciation of Property and Equipment

For the year ended 31 December 2016, depreciation of property and equipment increased by RUB863 million, or 139.6%, to RUB1,481 million from RUB618 for the year ended 31 December 2015, which in turn was an increase of RUB88 million, or 47.7%, from RUB530 million for the year ended 31 December 2014. The increase in 2016 as compared to 2015 is primarily explained by the creation of a depreciation charge of RUB749 million with regard to aircraft owned by CBM's consolidated leasing subsidiaries due to addition of aircraft as a result of the enforcement of collateral under secured letters of credit, and this depreciation charge did not exist in prior periods. The increase in 2015 as compared to 2014 was largely due to increases in the amount of fixed assets as a result of the purchase of new premises, primarily for administrative units.

(Provision for) Impairment of Other Assets and Credit Related Commitments

For the year ended 31 December 2016, provision for impairment of other assets and credit related commitments decreased by RUB130 million, or 14.3%, to RUB778 million from RUB908 million for the year ended 31 December 2015, which in turn was an increase of RUB865 million from RUB43 million for the year ended 31 December 2014. The decrease in 2016 as compared to 2015 was due to lower level of provision for impairment created. The movements in 2015 as compared to 2014 were largely due to recovery of impairment of corporate guarantee.

Income Tax

Income tax comprises CBM's current income tax charge and changes in deferred income tax. Taxes (other than income taxes) such as property tax are recorded within administrative expenses. The following table sets forth the components of CBM's income tax expense for the years indicated.

	Year ended 31 December		
	2016	2015	2014
		RUB millions	
Current tax charge	5,095	477	822
Deferred taxation.....	(2,234)	(42)	626
Income tax expense.....	2,861	435	1,448

CBM's income tax expense was RUB2,861 million, RUB435 million and RUB1,448 million for the years ended 31 December 2016, 2015 and 2014, respectively. A corresponding fluctuation in income tax correlated with movements in profit before income taxes for the periods under review.

Profit for the Period

For the reasons described above, CBM's profit for the period was RUB10,874 million, RUB1,509 million and RUB5,569 million for the years ended 31 December 2016, 2015 and 2014, respectively.

Other Comprehensive Income (Loss)

For the year ended 31 December 2016, CBM reported other comprehensive income (net of income tax) of RUB188 million as compared to other comprehensive income (net of income tax) of RUB1,151 million for the year ended 31 December 2015 and other comprehensive loss (net of income tax) of RUB1,240 million for the year ended 31 December 2014. These changes reflect the one-off effects of revaluation reserves for available-for-sale securities.

Financial Position

The following discussion of CBM's assets and liabilities should be read in conjunction with "Risk Management" and, in particular, with the data provided under "Risk Management - Credit Risk", "Risk Management - Market Risk" and "Risk Management - Liquidity Risk".

Total Assets

As at 31 December 2016, CBM had total assets of RUB1,567,969 million as compared to RUB1,208,201 million as at 31 December 2015 and RUB584,839 million as at 31 December 2014. The increase in total assets by RUB359,768 million, or 29.8%, for the year ended 31 December 2016 as compared to the year ended 31 December 2015 is primarily attributable to the increases in cash and cash equivalents, deposits in credit and other financial institutions and loans to customers. The increase in total assets by RUB623,362 million, or 106.6%, in 2015 as compared to 2014 primarily reflected a significant increase of RUB270,415 million in amounts due from credit and other financial institutions and a RUB215,051 million, or 56.9%, increase in loans to customers.

The following table sets forth the principal components of CBM's total assets as at the dates set forth below.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Loans to customers.....	626,535	39.9%	593,065	49.1%	378,014	64.6%
Deposits in credit and other financial institutions	403,480	25.7%	277,296	23.0%	6,881	1.2%
Cash and cash equivalents	373,327	23.8%	138,015	11.4%	118,697	20.3%
Financial instruments at fair value through profit or loss	83,909	5.3%	72,137	6.0%	49,865	8.5%
Available-for-sale securities	45,903	2.9%	87,403	7.2%	11,112	1.9%
Property and equipment	21,278	1.4%	7,004	0.6%	7,399	1.3%
Obligatory reserves with the Central Bank of the Russian Federation.....	7,287	0.5%	5,936	0.5%	3,360	0.6%
Goodwill	—	—	—	—	301	0.1%
Other assets	6,250	0.1%	27,345	2.3%	9,210	1.6%
Total assets.....	1,567,969	100.0%	1,208,201	100.0%	584,839	100.0%

Loans to Customers

Loans to customers (net of loan impairment allowance) are the largest component of CBM's total assets, accounting for 39.9%, 49.1% and 64.6% of total assets as at 31 December 2016, 2015 and 2014, respectively.

As at 31 December 2016, loans to customers (net of loan impairment allowance) amounted to RUB626,535 million, representing a 5.6% increase from RUB593,065 million as at 31 December 2015. The increase in loans to customers for 2016 as compared to 2015 is primarily attributed to a 10.6% increase in the corporate loan portfolio in line with organic growth of the loan portfolio. The increase in loans to customers was offset by the decrease in the retail loan portfolio as a result of a conservative approach to origination of loans to individuals in light of economic instability.

As at 31 December 2015, loans to customers (net of loan impairment allowance) amounted to RUB593,065 million, representing a 56.9% increase from RUB378,014 million as at 31 December 2014. The growth of the loan portfolio was based on enlarged credit facilities to existing high-quality corporate customers, as well as new loan origination to large corporates operating in different sectors of the economy. Notwithstanding a high demand for loan products from oil and industrial chemicals industry corporates, CBM managed to maintain diversification of its loan portfolio by industries. Decrease of retail loan portfolio resulted from CBM's strategy to mitigate the risk on the retail lending activities which was accompanied by shrink of high-quality loan demand on the market.

Distribution of Loans by Economic Sectors

The following table sets out the distribution of CBM's total gross loans to customers as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Loans to individuals	100,570	15.1	119,733	19.0	128,273	32.5
Loans to corporate customers	566,168	84.9	510,206	81.0	265,918	67.5
Oil and industrial chemicals	101,345	15.2	95,427	15.2	21,780	5.6
Food and farm products.....	72,255	10.9	63,578	10.1	24,130	6.1
Property rental	62,505	9.4	30,297	4.8	11,879	3.0
Financial.....	59,203	8.9	46,867	7.4	16,207	4.1
Automotive, motorcycles and spare parts.....	49,693	7.5	42,090	6.7	26,525	6.7
Residential and commercial construction and development.....	45,749	6.9	38,573	6.1	32,897	8.4
Services	44,747	6.7	61,159	9.7	29,283	7.5
Metallurgical	39,914	6.0	39,150	6.2	20,645	5.2
Industrial and infrastructure construction.....	21,246	3.2	24,809	3.9	12,991	3.3
Pharmaceutical and medical products.....	20,145	3.0	12,742	2.0	8,457	2.2
Industrial equipment and machinery ..	14,147	2.1	6,099	1.0	9,189	2.3
Construction and decorative materials, furniture	11,918	1.8	10,017	1.6	6,082	1.5
Clothing, shoes, textiles and sporting goods.....	8,599	1.3	10,503	1.7	15,806	4.0
Consumer electronics, appliances and computers	8,251	1.2	10,326	1.6	14,531	3.7
Paper, stationery and packaging products.....	2,628	0.4	2,916	0.5	2,053	0.5
Government and municipal bodies	1,422	0.2	-	0.0	-	0.0
Consumer chemicals, perfumes and hygiene products	917	0.1	2,687	0.4	1,904	0.5
Equipment leasing	318	0.0	33	0.0	1,311	0.3
Gardening and pet products.....	153	0.0	330	0.1	911	0.2
Products for home, gifts, jewelry and business accessories	67	0.0	184	0.0	344	0.1
Books, video, print and copy	38	0.0	323	0.1	308	0.1
Telecommunications	35	0.0	4,024	0.6	2,725	0.7
Electric utility.....	-	0.0	2,003	0.3	1,686	0.4
Other	873	0.1	6,066	1.0	4,273	1.1

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Total loans to customers	666,738	100.0	629,939	100.0	394,191	100.0

The majority of CBM's loan portfolio consists of loans to corporate customers. In recent years, as part of its strategy, CBM has broadened its focus to large high-quality corporate clients and, to a lesser extent, to medium-sized enterprises in industry sectors more enduring to the economic conditions, such as oil and gas, food, transportation. During the periods under review, CBM increased the aggregate share of customers operating in oil and industrial chemicals, as well as food and farm products in the corporate loan portfolio from 11.7% as at 31 December 2014 to 26.0% as at 31 December 2016. Companies operating in oil and industrial chemicals sector, historically the strongest sector of Russian economy, generate stable cash flows sufficient for repayment of their debt obligations. The food and farm sector benefited from counter-measures imposed by Russia on import of certain food and farm products from a number of countries in response to sanctions, so that companies operating in this sector were able to increase production capacity met by upsized market demand. At the same time, CBM decreased its exposure to sectors customarily affected by economic downturns such as construction and development, as well as automotive, motorcycles and spare parts. See *"Risk Factors – Risks Relating to CBM's Business and Industry – The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition"*.

Distribution of Loans by Geographic Location of Borrower

As at 31 December 2016, 80.6% of CBM's net loans to customers were to borrowers located in Russia, as compared to 82.5% and 94.1% as at 31 December 2015 and 2014, respectively. The following table sets forth the distribution of CBM's loans by geographical location of the borrower as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Russia.....	505,266	80.6	489,338	82.5	355,501	94.1
OECD.....	50,452	8.1	33,307	5.6	11,091	2.9
Other non-OECD	70,817	11.3	70,420	11.9	11,422	3.0
Total net loans to customers	626,535	100.0	593,065	100.0	378,014	100.0

Distribution of Loans by Maturity

Of CBM's net loan portfolio as at 31 December 2016, RUB323,354.8 million, or 51.6%, had a maturity of more than one year, RUB82,226.2 million, or 13.1%, had a maturity profile of between six months and one year, RUB86,461.0 million, or 13.8%, had a maturity of between three months and six months and RUB128,171.5 million, or 20.5%, had a maturity of between one day and three months.

Of CBM's net loan portfolio as at 31 December 2015, RUB257,657 million, or 43.4%, had a maturity of more than one year, RUB85,661 million, or 14.4%, had a maturity of between six months and one year, RUB63,334 million, or 10.7%, had a maturity of between three months and six months and RUB160,750 million, or 27.1%, had a maturity of between one day and three months.

Of CBM's net loan portfolio as at 31 December 2014, RUB202,602 million, or 53.6%, had a maturity of more than one year, RUB47,506 million, or 12.6%, had a maturity of between six months and one year, RUB36,897 million, or 9.8%, had a maturity of between three months and six months and RUB84,509 million, or 22.4%, had a maturity of between one day and three months. See *"Risk Management – Liquidity Risk"*.

Distribution of Loans by Status

Non-performing loans, or NPLs, represent loans with payments of principal and/or interest overdue by more than 90 days. CBM had gross NPLs in the amount of RUB15,269 million, RUB32,439 million and RUB9,068 million as at 31 December 2016, 2015 and 2014, respectively. The level of CBM's NPLs as a percentage of total gross loans to customers was 2.3%, 5.1% and 2.3% as at 31 December 2016, 2015 and 2014, respectively. NPLs in CBM's corporate loan portfolio accounted for 1.4% of gross loans to corporate customers as at 31 December 2016, as compared to 4.5% as at 31 December 2015 and 0.4% as at 31 December 2014. NPLs in CBM's retail loan portfolio accounted for 7.3% of gross loans to individuals as at 31 December 2016 as compared to 7.9% as at 31 December 2015 and 6.3% as at 31 December 2014. The increase of NPLs in 2015 was primarily attributable to the overall expansion of CBM's loan portfolio due to the increased volume of loan origination, as well as increases in NPLs in respect of loans to corporate customers driven by deterioration of a number of large corporate exposures. These loans were originated prior to the commencement of negative events in the Russian economy. As a result of such defaults, the loans were either restructured or written off. As at 31 December 2016, amount of NPLs decreased to RUB15,269 million as compared to 31 December 2015 due to the overall stabilisation of the quality of the loan portfolio. While some of these borrowers whose loans were restructured during 2016 commenced to service their indebtedness which resulted in the decrease of NPLs as at 31 December 2016 as compared to 31 December 2015, the loan impairment allowance has not correspondingly changed due to the CBM's provisioning policy.

Past Due Loans

CBM classifies loans to customers that are overdue (with payments that are overdue at least for one day) based on the number of days of delay in repayment.

The ageing analysis (by days of delay in repayment) of past due loans to customers by class as at 31 December 2016 is presented in the table below (on a gross basis).

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
(RUB millions)							
Loans to corporate clients.....	534	163	98	212	2,947	4,789	8,743
Loans to individuals, of which	1,323	1,047	866	1,332	3,266	2,724	10,559
Auto loans	16	8	9	9	33	14	89
Mortgage loans.....	182	44	54	176	415	1,387	2,258
Credit card loans	-	25	20	54	101	71	271
Other loans to individuals.....	1,125	970	783	1,092	2,717	1,251	7,937
Total loans to customers past due .	1,857	1,210	964	1,544	6,213	7,513	19,302

Ageing analysis (by days of delay in repayment) of past due loans to customers by class as at 31 December 2015 is presented in the table below (on a gross basis).

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
(RUB millions)							
Loans to corporate clients.....	5,906	3,180	213	7,965	14,149	878	32,291
Loans to individuals, of which	1,493	1,177	1,394	2,917	4,058	2,473	13,512
Auto loans	24	10	10	33	58	35	170
Mortgage loans.....	222	78	126	1,086	462	840	2,814
Credit card loans	—	40	34	123	332	173	702
Other loans to individuals.....	1,247	1,049	1,224	1,675	3,206	1,425	9,826
Total loans to customers past due ..	7,399	4,357	1,607	10,882	18,207	3,351	45,803

The ageing analysis (by days of delay in repayment) of past due loans to customers by class as at 31 December 2014 is presented in the table below (on a gross basis).

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
	(RUB millions)						
Loans to corporate clients.....	1,756	338	107	386	607	17	3,211
Loans to individuals, of which	1,586	926	774	2,172	4,008	1,877	11,343
Auto loans	39	23	18	44	94	44	262
Mortgage loans.....	196	113	42	161	165	375	1,052
Credit card loans	2	81	72	178	392	153	878
Other loans to individuals.....	1,349	709	642	1,789	3,357	1,305	9,151
Total loans to customers past due ..	3,342	1,264	881	2,558	4,615	1,894	14,554

Loan Impairment Allowance

An allowance is recognised in CBM's consolidated statement of financial position when CBM has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The following table sets forth an analysis of the changes in CBM's allowance for impairment of loans for the years indicated.

	Year ended 31 December					
	2016		2015		2014	
	RUB millions	% of gross loans	RUB millions	% of gross loans	RUB millions	% of gross loans
Balance at the beginning of the period, of which	36,874	65.2	16,175	43.9	8,918	55.1
Auto loans to individuals.....	114	0.2	120	0.3	111	0.7
Mortgage loans to individuals	902	1.6	306	0.8	186	1.1
Credit card loans to individuals.....	545	1.0	618	1.7	309	1.9
Other loans to individuals	7,530	13.3	6,765	18.4	3,859	23.9
Corporate clients	27,783	49.1	8,366	22.7	4,453	27.5
Net charge (recovery), of which.....	29,783	52.6	26,036	70.6	11,645	72.0
Auto loans to individuals.....	0	0.0	156	0.4	153	0.9
Mortgage loans to individuals	801	1.4	596	1.6	122	0.8
Credit card loans to individuals.....	237	0.4	218	0.6	556	3.4
Other loans to individuals	6,166	10.9	4,527	12.3	6,002	37.1
Corporate clients	22,579	39.9	20,539	55.7	4,812	29.8
Net write-offs, of which	(26,454)	(65.8)	(5,338)	(14.5)	(4,389)	(27.1)
Auto loans to individuals.....	(60)	(0.1)	(162)	(0.4)	(144)	(0.9)
Mortgage loans to individuals	(577)	(1.0)	—	—	(3)	—
Credit card loans to individuals.....	(544)	(1.0)	(291)	(0.8)	(247)	(1.5)
Other loans to individuals	(7,610)	(13.5)	(3,762)	(10.2)	(3,096)	(19.1)
Corporate clients	(17,663)	(31.2)	(1,123)	(3.1)	(899)	(5.6)
Balance at the end of the period.....	40,203	100.0	36,873	100.0	16,174	100.0

The significant increase in impairment allowance during the periods under review reflected a deterioration in the quality of CBM's loan portfolio originated prior to the commencement of economic instability as a reaction to the uncertain economic environment in Russia, and such conservative provisioning was in line with the market trend as a result of adverse macroeconomic factors. In addition, this significant increase is also explained by a few corporate defaults by large companies that were borrowers of CBM. As a result of such defaults, the loans were either restructured or written off. CBM's management believes that the level of impairment allowance as at 31 December 2016 covers all significant overdue loans. Since 31 December 2016, there have been no major loans that required creation of provision for impairment of loans. CBM's impairment allowance increased by 8.3% to RUB40,203 million as at 31 December 2016 from RUB36,873 million as at 31 December 2015 and from RUB16,174 million as at 31 December 2014. CBM's ratio of NPL coverage by allowance for loan impairment was 263.3% as at 31 December 2016, 113.7% as at 31 December

2015 and 178.4% as at 31 December 2014. See – “*Presentation of Financial Information – Non-IFRS Measures*”.

Deposits in Credit and Other Financial Institutions

As at 31 December 2016, CBM had deposits in credit and other financial institutions of RUB403,480 million as compared to RUB277,296 million as at 31 December 2015 and RUB6,881 million as at 31 December 2014. The significant increase in deposits in credit and other financial institutions as at 31 December 2016 as compared to 31 December 2015 and 2014 was primarily attributable to an increase in receivables under reverse sale and repurchase agreements as part of CBM’s liquidity management strategy on the interbank lending market resulting from demand for liquidity from the financial institutions. Of RUB403,480 million of deposits in credit and other financial institutions, RUB275,110 million have the maturity from one to three months with the remaining portion from three months to one year.

As at 31 December 2016, CBM had two counterparties, whose deposit balances with gross value of RUB365,788 million exceeded 10% of total deposits in credit and other financial institutions, as compared to three counterparties, whose deposit balances with gross value of RUB210,588 million exceeded 10% of total deposits in credit and other financial institutions as at 31 December 2015, and four counterparties, whose deposit balances with gross value of RUB6,793 million exceeded 10% of total deposits in credit and other financial institutions as at 31 December 2014.

Cash and Cash Equivalents

Cash and cash equivalents represent items that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value. As at 31 December 2016, CBM had cash and cash equivalents of RUB373,327 million as compared to RUB138,015 million as at 31 December 2015, representing an increase of 270.5%. This increase was primarily due to a RUB177,847 million increase in total due from credit institutions and other financial institutions with maturity of less than one month and a RUB60,734 million increase in total nostro accounts with other banks, which are primarily explained by CBM’s activities on the interbank lending market as a result of demand for liquidity from other financial institutions. The transactions on the interbank lending market were structured as repo whereby CBM had receivables under reverse sale and repurchase agreements included in cash and cash equivalents were RUB228,616 million as at 31 December 2016 as compared to RUB50,735 million as at 31 December 2015. The full amount of cash and cash equivalents as at 31 December 2016 had the maturity of less than one month.

As at 31 December 2015, CBM had cash and cash equivalents of RUB138,015 million, representing an increase of RUB19,318 million, or 16.3%, from RUB118,697 million as at 31 December 2014. This increase was primarily due to a RUB18,931 million increase in balances held with the CBR related to settlement activity, a RUB4,816 million increase in cash on hand and a RUB3,430 million increase in total deposits in credit and other financial institutions with maturity of less than 1 month. The overall increase in cash and cash equivalents during the periods under review resulted from CBM’s decision to adopt a more conservative approach to liquidity management and from the growth of assets.

Securities Portfolio

CBM’s securities portfolio consists primarily of Russian government and municipal securities, corporate bonds and Eurobonds of top-tier Russian companies with solid credit ratings. During the periods under review CBM increased securities portfolio and continued to invest into liquid securities included in the CBR’s Lombard List, so that it could derive liquidity on interbank market from CBR by selling securities directly or under repurchase contracts at any time.

Additionally, CBM's securities portfolio generates stable interest income while maintaining high asset quality, which is especially important in current unstable macroeconomic environment. CBM's securities portfolio comprised 8.3%, 13.2% and 10.4% of CBM's total assets as at 31 December 2016, 2015 and 2014, respectively. CBM classifies its securities portfolio into financial instruments at fair value through profit or loss and available-for-sale securities.

The following table sets forth information relating to securities held in each of the two categories set forth below as at the dates indicated.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Financial instruments at fair value through profit or loss	83,909	64.6%	72,137	45.2%	49,865	81.8%
Available-for-sale securities	45,903	35.4%	87,403	54.8%	11,112	18.2%
Total securities portfolio	129,812	100.0%	159,540	100.0%	60,977	100.0%

Financial instruments at fair value through profit or loss are financial assets or liabilities classified as such by CBM's management as such at the time of initial recognition. See Note 3 to the 2016 Annual Financial Statements for details. Financial instruments at fair value through profit or loss represented 64.6%, 45.2% and 81.8% of the total securities portfolio as at 31 December 2016, 2015 and 2014, respectively. While the average balance of CBM's debt securities portfolio (excluding insignificant amount of equity securities) increased from RUB58,331 million for 2014 to RUB94,828 million for 2015 and further to RUB144,440 million for 2016, CBM's securities portfolio decreased from RUB159,540 million as at 31 December 2015 to RUB129,812 million as at 31 December 2016. This decrease was a result of the decline in available-for-sale securities from RUB87,403 million as at 31 December 2015 to RUB45,903 million as at 31 December 2016 due to a sale under a favourable market environment.

CBM's focus on the securities portfolio generally reflects CBM's strategy to increase the share of assets with lower interest rates in CBM's securities portfolio (such as debt securities) as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia.

The following table sets forth information relating to CBM's securities classified as financial instruments at fair value through profit or loss as at the dates indicated.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Corporate bonds	67,725	80.7%	64,433	89.3%	41,352	83.0%
Pledged under sale and repurchase agreements	6,544	7.8%	2,654	3.7%	139	0.3%
Corporate bonds	6,276	7.5%	2,303	3.2%	139	0.3%
Regional authorities and municipal bonds	—	—	351	0.5%	—	—
Russian Government eurobonds	268	0.3%	—	—	—	—
Regional authorities and municipal bonds	4,298	5.1%	3,391	4.7%	7,244	14.5%
Derivative financial instruments	2,549	3.0%	926	1.3%	1,015	2.0%
Federal loan bonds (OFZ bonds)	1,047	1.2%	509	0.7%	—	—
Russian Government eurobonds	1,745	2.1%	—	—	—	—
Moscow government bonds	—	—	224	0.3%	115	0.2%
Total financial instruments at fair value through profit or loss	83,909	100.0%	72,137	100.0%	49,865	100.0%

Over the periods under review, the share of OFZ bonds in CBM's securities portfolio increased from 0.0% as at 31 December 2014 to 1.2% as at 31 December 2016 mainly due to a more stable and high quality nature of the instrument. The decrease in share of regional authorities and municipal bonds in the portfolio from 14.5% as at 31 December 2014 to 5.5% as at 31 December 2016 is primarily attributable to CBM's strategy to invest in high-quality securities, such as OFZ and corporate bonds of top-level companies, as well as an overall increase of financial instruments at fair value through profit or loss over the periods under review.

Available-for-sale securities includes securities that CBM intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The following table sets forth information relating to CBM's securities categorized as available-for-sale as at the dates indicated.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Corporate bonds	25,973	56.6%	73,243	83.8%	10,919	98.3%
Pledged under sale and repurchase agreements	19,818	43.2%	2,116	2.4%	—	—
Promissory notes	—	—	11,933	13.7%	193	1.7%
Total debt securities available-for- sale	45,791	99.8%	87,292	99.9%	11,112	100.0%
Equity investments	112	0.2%	111	0.1%	—	—
Total available-for-sale securities...	45,903	100.0%	87,403	100.0%	11,112	100.0%

Property and Equipment

CBM's property and equipment consists of buildings, vehicles (including armoured cash handling vehicles), ATMs, payment terminals, computers and office equipment, furniture, aircraft, other property and construction in progress and assets subject to operating lease. CBM's property and equipment was RUB21,278 million, RUB7,004 million and RUB7,399 million as at 31 December 2016, 2015 and 2014, respectively. The significant increase in property and equipment in 2016 as compared to 2015 was mainly due to addition of aircraft in the amount of RUB16,587 million which were recorded in "other assets" line item as property held for further leasing. The increases in the value of CBM's property and equipment during the periods under review were primarily due to further development of CBM's network, as well as the acquisition of aircraft by CBM in 2015 as a result of enforcement of collateral under the secured letters of credit. CBM's subsidiary, CBM Ireland Leasing Limited, was established for operating leasing of aircraft, obtaining assets subject to operating lease on its balances.

Other Assets

Other assets primarily include receivables, property held for sale, prepaid expenses and intangible assets. In 2015, CBM acquired a number of aircraft as a result of the enforcement of collateral under the secured letters of credit. The aircraft at initial recognition were included in other assets as property held for further leasing in the amount of RUB18,002 million. In 2016, the aircraft were transferred into "property and equipment" line item.

Total Liabilities

The following table sets forth the principal components of CBM's total liabilities as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Deposits by customers.....	689,496	47.1%	898,692	80.5%	334,852	63.8%
Deposits by credit and other financial institutions.....	381,624	26.1%	84,660	7.6%	54,303	10.4%
Deposits by the CBR.....	247,169	16.9%	4,045	0.4%	11,594	2.2%
Debt securities issued.....	137,203	9.4%	121,155	10.9%	118,621	22.6%
Deferred tax liability.....	190	0.0%	2,381	0.2%	2,196	0.4%
Other liabilities.....	8,885	0.5%	4,930	0.4%	3,286	0.6%
Total liabilities.....	1,464,568	100.0%	1,115,863	100.0%	524,852	100.0%

As at 31 December 2016, CBM had total liabilities of RUB1,464,568 million, an increase of RUB348,706 million, or 31.3%, from RUB1,115,863 million as at 31 December 2015. This increase was primarily due to the increase in deposits by the CBR and deposits by credit and other financial institutions and was partially offset by decreases in deposits by customers. As at 31 December 2015, CBM had total liabilities of RUB1,115,863 million, an increase of RUB591,011 million, or 112.6%, from RUB524,852 million as at 31 December 2014. The increase in total liabilities in 2015 as compared to 2014 reflected the continued expansion of CBM's business and, in particular, increase in the amount of corporate deposits due to an ample inflow of new large corporate customers.

Deposits by Customers

The largest component of CBM's liabilities, and thus its main source of funding, is current accounts and deposits by customers. The following table sets out the principal components of CBM's deposits by customers as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Individuals						
Term deposits.....	235,353	34.1%	189,048	21.1%	152,614	45.6%
Current accounts and demand deposits.....	13,300	2.0%	11,881	1.3%	10,786	3.2%
Total due to individuals.....	248,654	36.1%	200,929	22.4%	163,400	48.8%
Corporate customers						
Term deposits.....	379,563	55.0%	645,758	71.8%	152,096	45.4%
Current accounts.....	41,300	6.0%	25,833	2.9%	19,024	5.7%
Subordinated debt.....	18,273	2.7%	21,885	2.4%	—	—
Term notes.....	1,706	0.2%	4,287	0.5%	332	0.1%
Total due to corporate customers.....	440,842	63.9%	697,763	77.6%	171,452	51.2%
Total deposits by customers.....	689,496	100.0%	898,692	100.0%	334,852	100.0%

Deposits by customers decreased by RUB209,196 million or 23.3% to RUB689,496 million as at 31 December 2016 from RUB898,692 million as at 31 December 2015, which in turn was an increase of RUB563,840 million or 168.4% from RUB 334,852 million as at 31 December 2014. Corporate deposits represented 63.9%, 77.6% and 51.2% of CBM's total deposits by customers as at 31 December 2016, 2015 and 2014, respectively. In 2016, deposits by customers decreased from RUB898,692 million as at 31 December 2015 to RUB689,496 million. The decrease in deposits by customers in 2016 as compared to 2015 was a result of a scheduled repayment of certain deposits placed by one counterparty in the end of 2016 which have been equally replaced by the same

counterparty in the first quarter of 2017. The expansion of the deposit portfolio in 2015 as compared to 2014 is primarily explained by a significant increase in deposits by corporate customers due to an ample inflow of new large corporate customers. Deposits from individual customers represented 36.1%, 22.4% and 48.8% of CBM's total deposits by customers as at 31 December 2016, 2015 and 2014, respectively.

The following table presents the distribution of CBM's deposit concentrations amongst its twenty largest depositors as at the dates indicated.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total deposits	RUB millions	% of total deposits	RUB millions	% of total deposits
Twenty largest depositors.....	354,821	51.5%	631,724	70.3%	135,759	40.5%

As at 31 December 2016, CBM had one counterparty, whose demand and term deposits with gross value of RUB243,280 million exceeded 10% of total customer accounts, as compared to two counterparties, whose demand and term deposits with gross value of RUB493,627 million exceeded 10% of total customer accounts as at 31 December 2016. As at 31 December 2014, there were no counterparties, whose demand and term deposits exceeded 10% of total customer accounts. See also *“Risk Factors – Risks Relating to CBM's Business and Industry – The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition”*.

For information on the maturities of CBM's deposits by customers, see *“Risk Management – Liquidity Risk”*.

Deposits by Credit and Other Financial Institutions

Deposits by credit and other financial institutions include payables under repurchase agreements or collateralised loans, term deposits, current accounts, subordinated debts and syndicated loans. Deposits by credit institutions represented 26.0%, 7.6% and 10.3% of total liabilities as at 31 December 2016, 2015 and 2014, respectively. The following table provides a breakdown of CBM's deposits by credit and other financial institutions as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Payables under repurchase agreements or collateralised loans.....	247,011	64.7	22,603	26.7	—	—
Term deposits.....	129,999	34.1	52,524	62.0	29,909	55.1
Current accounts.....	3,991	1.0	8,043	9.5	772	1.4
Subordinated debt.....	623	0.2	1,490	1.8	1,151	2.1
Syndicated loans.....	—	—	—	—	22,471	41.4
Total deposits by credit institutions	381,624	100.0	84,660	100.0	54,303	100.0

Deposits by credit and other financial institutions increased by RUB296,965 million, or 350.8%, to RUB381,624 million as at 31 December 2016 from RUB84,660 million as at 31 December 2015, which in turn was an increase of RUB30,357 million, or 55.9% from RUB54,303 million as at 31 December 2014. The significant increase in 2016 as compared to 2015 is explained by (i) the increase in payables under repurchase agreements or collateralised loans to RUB247,011 million for 2016 from RUB22,603 million for 2015 as a result of active operations on the interbank lending market through repo transactions due to favourable interest rate environment to finance the expansion of corporate lending business, and (ii) the increase in term deposits to RUB129,999 million for 2016 from RUB52,524 million for 2015 as a result of current liquidity management. Of RUB381,624

million of deposits by credit and other financial institutions as at 31 December 2016, RUB370,444 million matures by 31 March 2017.

As at 31 December 2016, CBM had two counterparties whose deposits balances exceeded 10.0% of deposits by credit and other financial institutions, as compared to four such counterparties as at 31 December 2015 and no such counterparties as at 31 December 2014.

Deposits by the CBR

Deposits by the CBR increased to RUB247,170 million as at 31 December 2016 from RUB4,045 million as at 31 December 2015, which in turn was a decrease from RUB11,594 million as at 31 December 2014. The significant increase in 2016 as compared to 2015 is explained by the acquisition of LLC Bank SKS and consolidation of its financial results and operations with those of the Group.

Debt Securities Issued

CBM issues debt securities in the domestic and international markets to fund the ongoing growth of its business operations. Debt securities issued represented 9.4%, 10.9% and 22.6% of CBM's total liabilities as at 31 December 2016, 2015 and 2014, respectively. Fluctuation of balances occurred primarily due to the replacement of matured debt instruments by newly issued securities, as well as revaluation of U.S.\$-denominated Eurobond, reflecting changes in the RUB/USD exchange rate. The following table sets forth the principal components of CBM's debt securities issued as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Promissory notes after accrued interest and unamortised discount	1,145	0.8%	1,045	0.9%	4,966	4.2%
Total bonds issued, of which: ⁽¹⁾	136,058	99.2%	120,110	99.1%	113,655	95.8%
Eurobonds	92,395	67.3%	78,668	64.9%	60,809	51.3%
Other bonds	43,663	31.9%	41,442	34.2%	52,846	44.5%
Total debt securities issued	137,203	100.0%	121,155	100.0%	118,621	100.0%

Note:

⁽¹⁾ Includes RUB40,806 million, RUB46,209 million and RUB36,953 million in subordinated bonds as at 31 December 2016, 2015 and 2014, respectively.

Other Liabilities

Other liabilities amounted to RUB8,885 million, RUB4,930 million and RUB3,271 million as at 31 December 2016, 2015 and 2014, respectively. Other liabilities primarily consist of payables to suppliers and allowances on issued guarantees. Other liabilities increased during the periods under review primarily due to an increase in payables to suppliers as a result of the overall growth of CBM's business.

Equity

The following table sets forth CBM's equity as at the dates indicated:

	As at 31 December		
	2016	2015	2014
	RUB millions		
Share capital	24,742	24,742	15,330
Additional paid-in capital	35,047	35,047	9,769
Shares in the process of issue	—	—	5,000
Revaluation surplus for buildings	688	769	1,116

	As at 31 December		
	2016	2015	2014
		RUB millions	
Revaluation reserve for available-for-sale securities	451	221	(1,278)
Currency translation reserve	39	—	—
Retained earnings	42,434	31,559	30,050
Total equity	103,400	92,338	59,987

CBM's total equity increased by RUB11,062 million, or 12.0%, to RUB103,400 million as at 31 December 2016 from RUB92,338 million as at 31 December 2015. This increase was primarily due to a RUB10,874 million increase in retained earnings. Total equity increased by RUB32,351 million, or 53.9%, to RUB92,338 million as at 31 December 2015 from RUB59,987 million as at 31 December 2014, due to increases in share capital and additional paid-in capital as a result of CBM's IPO and SPO transactions in 2015. See "– *Capital Adequacy*".

Funding

CBM's funding base relies primarily on deposits from retail and corporate customers. Other sources of funding include its promissory note programme, issues of Rouble-denominated bonds and Eurobonds, funds raised on the Russian interbank market, funds raised from international financial institutions and in the form of syndicated loans from foreign banks and subordinated loans from banks and CBM's controlling shareholder. CBM also has access to funding from the CBR on a secured and unsecured basis.

CBM's funding strategy is to continue to develop a diversified funding policy in order to achieve an optimum balance between its own capital, domestic and international borrowings to cover the growing needs of CBM's business, both in terms of currency and maturity.

The following table sets out CBM's sources of funding as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Deposits by credit and other financial institutions						
Payables under repurchase agreements or collateralised loans	247,011	64.7	22,603	2.0	—	—
Term deposits	129,999	34.1	52,524	4.8	29,909	5.9
Deposits withdrawable on demand	3,991	1.0	8,043	0.7	772	0.1
Subordinated debt	623	0.2	1,490	0.1	1,151	0.2
Syndicated loans	—	—	—	—	22,471	4.4
Total	381,624	31.6	84,660	7.6	54,303	10.6
Deposits by customers						
Term deposits	614,916	50.9	834,806	75.6	304,710	60.0
Current accounts and demand deposits	54,600	4.5	37,714	3.4	29,810	5.9
Subordinated debt	18,273	1.5	21,885	2.0	—	—
Term notes	1,706	0.1	4,287	0.4	332	0.1
Total	689,496	57.1	898,692	81.4	334,852	66.0
Debt securities issued						
Promissory notes issued	1,146	0.1	1,045	0.1	4,966	1.0
Subordinated bonds	40,806	3.4	46,208	4.2	36,952	7.3
Bonds	95,252	7.8	73,902	6.7	76,703	15.1
Total	137,203	11.3	121,155	11.0	118,621	23.4
Total funding	1,208,323	100.0	1,104,507	100.0	507,776	100.0

As at 31 December					
2016		2015		2014	
RUB millions	% of total	RUB millions	% of total	RUB millions	% of total

CBM's main source of funding is term deposits of corporate and retail customers. For further information on CBM's sources of funding, see “—*Financial Condition—Total Liabilities*”

The following table sets out CBM's current accounts and deposits by customers, by currency as at the dates indicated.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Funding by currency						
Roubles	753,072	62.3%	419,521	46.7%	283,533	84.7%
Foreign currencies	455,251	37.7%	479,171	53.3%	51,319	15.3%
Total funding	1,208,323	100.0%	898,692	100.0%	334,852	100.0%

Analysis by Segment

CBM's business segments are defined on the basis of the organisational structure of CBM. As discussed above under “– *Segmentation*”, CBM operates its business around its corporate and retail banking operations, and its other segments operate primarily in support of these operations; expenses not allocated to a particular segment consist primarily of expenses related to administrative and support functions.

Corporate banking accounts for the largest share of CBM's revenue, accounting for 55.0% of CBM's revenue for the period ended 31 December 2016, as compared to 53.8% and 34.9% for the years ended 31 December 2015 and 2014, respectively. Retail banking represented 24.5% of CBM's revenue for the period ended 31 December 2016, as compared to 24.5% and 41.1% for the years ended 31 December 2015 and 2014, respectively. Treasury banking represented 17.2% of CBM's revenue for the period ended 31 December 2016, as compared to 19.2% and 21.1% for the years ended 31 December 2015 and 2014, respectively. Cash operations (including cash handling business) represented 3.3% of CBM's revenue for the period ended 31 December 2016, as compared to 2.5% and 2.9% for the years ended 31 December 2015 and 2014, respectively. See – “*Business – Corporate Banking*”.

The following tables set forth certain data for each of CBM's operating segments as at the dates and for the years indicated. Segment revenue includes inter-segment revenue. Intersegment pricing is determined on an arm's length basis.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Segment assets						
Corporate banking	552,400	35.2%	487,032	40.3%	259,263	44.3%
Retail banking	95,693	6.1%	111,969	9.3%	122,111	20.9%
Treasury	887,856	56.6%	557,505	46.2%	174,024	29.8%
Cash operations	18,763	1.2%	17,345	1.4%	12,529	2.1%
Unallocated	13,257	0.8%	34,350	2.8%	16,912	2.9%
Total assets.....	1,567,968	100.0%	1,208,201	100.0%	584,839	100.0%
Segment liabilities						
Corporate banking	440,842	30.1%	697,763	62.5 %	171,452	32.7%

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Retail banking	248,654	16.9%	200,929	18.0%	163,400	31.1%
Treasury	765,997	52.3%	209,859	18.8%	184,519	35.2%
Unallocated	9,074	0.6%	7,312	0.7%	5,481	1.0%
Total liabilities	1,464,568	100.0%	1,115,863	100.0%	524,852	100.0%

	For the year ended 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Segment revenue						
Corporate banking	74,124	55.0%	54,954	53.8%	21,936	34.9%
Retail banking	33,145	24.5%	24,992	24.5%	25,869	41.1%
Treasury	23,208	17.2%	19,624	19.2%	13,298	21.1%
Cash operations	4,526	3.3%	2,552	2.5%	1,791	2.9%
Total segment revenue	135,003	100.0%	102,122	100.0%	62,894	100.0%
Segment expenses						
Corporate banking	(65,337)	53.9%	(50,099)	50.0%	(17,165)	30.7%
Retail banking	(30,257)	24.9%	(29,876)	29.8%	(22,901)	41.0%
Treasury	(19,713)	16.3%	(15,913)	15.9%	(11,338)	20.3%
Cash operations	(1,920)	1.6%	(498)	0.5%	(1,444)	2.6%
Unallocated	(4,042)	3.3%	(3,792)	3.8%	(3,029)	5.4%
Total segment expenses	(121,269)	100.0%	(100,178)	100.0%	(55,877)	100.0%
Segment result						
Corporate banking	8,787	64.0%	4,855	249.7%	4,771	68.0%
Retail banking	2,889	22.0%	(4,884)	(251.2)%	2,968	42.3%
Treasury	3,495	25.4%	3,711	190.9%	1,960	27.9%
Cash operations	2,606	19.9%	2,054	105.7%	347	5.0%
Unallocated	(4,042)	(29.4)%	(3,792)	(195.1)%	(3,029)	(43.2)%
Total segment result	13,735	100.0%	1,944	100.0%	7,017	100.0%

Contingencies and Commitments

CBM enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its clients' needs. These instruments, which include guarantees and letters of credit, undrawn loan commitments to extend credits, other contingent liabilities, involve varying degrees of credit risk and are not reflected in CBM's consolidated statement of financial position. CBM uses similar credit approval policies in undertaking off-balance sheet credit related commitments as it does for its on-balance sheet operations. See "*Risk Management – Credit Risk*".

The following table sets forth CBM's credit-related commitments as at the dates indicated:

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Guarantees and letters of credit	101,612	79.0%	65,896	90.9%	67,724	91.1%
Undrawn loan commitments	26,676	20.7%	6,450	8.9%	6,313	8.5%
Other contingent liabilities	322	0.3%	137	0.2%	327	0.4%
Total credit-related commitments....	128,611	100.0%	72,483	100.0%	74,364	100.0%

Principal unrecognised commitments of CBM comprised guarantees and letters of credit, as well as undrawn loan commitments. While the credit-related commitments decreased from RUB74,364 million as at 31 December 2014 to RUB72,483 million as at 31 December 2015, the credit-related

commitments then increased to RUB128,611 million as at 31 December 2016 from RUB72,483 million as at 31 December 2015 as a result of the increase in guarantees and letters of credit due to the demand for documentary services from CBM's clients, as well as in undrawn loan commitments and due to an increase in lending volumes in line with the general growth in CBM's business.

Capital Adequacy

The following table sets forth the capital adequacy ratio of CBM calculated in accordance with the Basel III requirements as adopted in the Russian Federation, on the basis of IFRS data. See Notes 27 to the 2016 Annual Financial Statements and the 2015 Annual Financial Statements.

	As at 31 December		
	2016	2015	2014
	RUB millions		
Tier 1 capital			
Share capital and additional paid-in capital	59,789	59,789	25,099
Retained earnings	42,333	31,560	30,050
Intangible assets	(313)	(354)	(142)
Core tier 1	101,909	90,994	59,706
Total Tier 1 capital	101,909	90,994	59,706
Tier 2 capital			
Revaluation surplus for buildings	688	769	1,116
Revaluation reserve for investments available-for-sale	451	221	(1,278)
Subordinated loans			
Subordinated loans	38,464	42,291	360
Subordinated bonds	18,294	28,277	30,434
Total Tier 2 capital	57,897	71,558	30,632
Total capital	159,806	162,552	90,338
Risk-weighted assets			
Banking book	869,092	749,365	459,721
Trading book	138,703	179,465	67,317
Operational risk	77,593	57,450	43,073
Total risk weighted assets	1,085,388	986,280	570,111
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	14.7	16.5	15.8
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)	9.4	9.2	10.5
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	9.4	9.2	10.5

CBM's Tier 1 capital increased by RUB10,915 million, or 12.0%, to RUB101,909 million as at 31 December 2016 from RUB90,994 million as at 31 December 2015. This increase was due to an increase in retained earnings. CBM's Tier 1 capital increased by RUB31,288 million, or 52.4%, to RUB90,994 million as at 31 December 2015 from RUB 59,706 million as at 31 December 2014. This increase was due to additional issuances of shares by CBM during 2015 in connection with CBM's IPO and SPO transactions.

CBM's Tier 2 capital decreased by RUB13,661 million, or 19.1%, to RUB57,897 million as at 31 December 2016 from RUB71,558 million as at 31 December 2015. This decrease was primarily due to a decrease in subordinated bonds as a result of revaluation of U.S.\$-denominated subordinated bonds due to the appreciation of the Russian Rouble against the U.S. Dollar in 2016, as well as a decreasing amount of subordinated bonds eligible for inclusion into Tier 2 Capital under Russian regulations. CBM's Tier 2 capital increased by RUB40,926 million, or 133.6%, to RUB71,558 million as at 31 December 2015 from RUB30,632 million as at 31 December 2014. This increase was due to a significant increase in subordinated loans primarily as a result of the receipt by CBM of RUB20,231 million subordinated loan in the form of federal loan bonds (OFZ) from the State

Corporation “Deposit Insurance Agency” in June 2015. Additionally, in December 2015, CBM received a 10-year U.S.\$-denominated 300 million subordinated deposit from a corporate customer. According to the terms of the deposit, early repayment of subordinated deposit (or part thereof) is possible not earlier than 5 years from the date of inclusion of subordinated loans in CBM’s Tier II capital sources, and only at the discretion of CBM.

Significant Accounting Policies and New Accounting Standards

A detailed description of CBM’s significant accounting policies are set forth in Note 3 to the 2016 Annual Financial Statements. Certain amendments to IFRS became effective from 1 January 2016 and have been adopted by CBM. These changes do not have a significant effect on the 2016 Annual Financial Statements.

A number of new standards, amendments to standards and interpretations were not yet effective as at 31 December 2016, and are not applied in preparing the 2016 Annual Financial Statements. Of these pronouncements, the following will potentially have an impact on the financial position or performance of CBM:

- IFRS 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. CBM recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Although early adoption of the standard is permitted, the Group does not intend to adopt the standard earlier. The Group has not started a formal assessment of the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group’s consolidated financial statements. Currently the Group is in the process of developing its IFRS 9 implementation plan.
- IFRS 16 replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. CBM has not analysed the impact of these changes yet. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of consolidated financial statements under IFRS requires CBM’s management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgments made regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on the management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments that have the most significant effect on the amounts recognised in the Financial Statements include:

- loan impairment estimates;
- building revaluation estimates; and
- fair values of financial assets and liabilities.

BUSINESS

Overview

Established in 1992, CBM is one of leading privately owned universal banks in Russia, listed on the Moscow Exchange, that focuses on providing banking products and services to corporate customers and individuals in the Moscow Area, comprising Moscow and the Moscow region. CBM offers a comprehensive range of banking services, including corporate and retail lending, deposit-taking, cash handling, international settlements, trade finance, letters of credit, guarantees, plastic card services, foreign exchange operations and other products. CBM's corporate banking business was traditionally focused on retail and wholesale trading corporate customers, enabling CBM to capitalize on the Russian consumer market. In recent years CBM's client franchise was broadened towards large and medium sized Russian companies operating in different industry sectors, especially those that are most resistant to macroeconomic instability and benefiting from import substitution, with strong emphasis on customers' credit quality. CBM's retail business is focused on consumer loans and mortgage loans to high quality retail customers, with a particular emphasis on cross-sale of retail products to the employees and clients of its corporate customers.

As at 31 December 2016, CBM's total assets comprised RUB1,568.0 billion, total gross loans to customers amounted to RUB666.7 billion, with gross loans to corporate clients and gross loans to individuals accounting for 84.9% and 15.1% of total gross loans, respectively. CBM's total equity as at 31 December 2016 constituted RUB103.4 billion. CBM's profit was RUB10.9 billion for 2016.

CBM has developed a strong cash handling platform which serves as an entry point to start new corporate customer relationships and enhance customer loyalty. Along with that, CBM's cash handling platform provides strategic benefits from a risk management perspective enabling CBM to monitor the cash flows of its corporate customers, thus supporting quality risk management and asset quality. In addition, the acquisition of INKAHRAN Group in 2015 has further reinforced CBM's position in the cash-handling services market. Through its multichannel distribution network, including offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its retail customers. CBM is focused on delivering customer-centred services, with quick and user friendly service and high levels of responsiveness. Coupled with such benefits in terms of retail banking business development as strong contribution to customer acquisition, advertising and cost efficiency, CBM's broad payment terminal network became a reliable risk management tool for retail lending providing CBM with an ability to understand consumer patterns and to cut off fraud applications for banking products based on its vast database of customers. As at 31 December 2016, CBM had 91 branches, 24 cash offices, over 1,026 ATMs and 5,725 payment terminals concentrated in the Moscow Area. See *"Business – Business Operations – Distribution Network"*.

As at the date of this Prospectus, CBM has "B1" long-term global and local currency deposit rating, "E+" financial strength rating and Ba3 counterparty risk assessment from Moody's. Fitch has assigned to CBM "BB" long-term issuer default and "B" short-term issuer default ratings. CBM also has "BB-" long-term counterparty default and "B" short-term counterparty default ratings from S&P.

CBM was established on 5 August 1992. CBM is a legal entity organised as a public joint stock company under Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended, and is registered in the Russian Unified Register of Legal Entities under main state registration number 1027739555282. CBM operates under general banking licence No. 1978 issued by the CBR. The Borrower's full legal name is CREDIT BANK OF MOSCOW (public joint-stock company). It's registered and head office is located at 2 (Building 1) Lukov Pereulok, Moscow 107045, Russian Federation. The telephone number of the registered office and the head office of the Borrower is +7 (495) 797-42-22.

Competitive Strengths

CBM's management believes that CBM has a number of competitive advantages in the Russian banking market, including the following.

Established position in the Moscow Area banking market

CBM's business is focused on the Moscow Area, which is the economic and financial centre of Russia and the most economically developed, wealthiest and most populous area in Russia. The Moscow Area has significant potential for further economic development, supported by presence of most of large nationwide and regional companies' headquarters, large population, high income and consumer spending, as well as investment activities. This drives the demand for high-quality banking products and services in the Moscow Area, which CBM believes tends to increase for the foreseeable future.

The Moscow Area's gross regional product in 2016 accounted for more than a quarter of Russia's GDP, according to Rosstat. According to Rosstat, the Moscow Area had a population of approximately 19.6 million in 2016, approximately 13% of Russia's total population. The average monthly income in Moscow in 3 quarters of 2016 was RUB68,256, more than twice the Russian average, according to Rosstat. According to Rosstat, unemployment in Moscow was approximately 1.6% in 2016. Moscow also has a diversified economy, with the retail and wholesale trading sector, in which CBM has historically strong expertise, accounting for approximately 35% of Moscow's gross regional product in 2016, according to Rosstat.

CBM's management believes that CBM is strongly positioned in the highly competitive market for banking services in the Moscow Area, as customers increasingly shift their business towards strongly-capitalized, stable market participants that offer high-quality services. In addition, an increasing number of CBM's corporate customers headquartered in Moscow have operations throughout Russia, and CBM, by being close to their headquarters is able to leverage its relationships with these customers to provide banking services for their corporate activities in other parts of Russia. CBM's traditional focus on the Moscow Area also gives it significant knowledge of and expertise in the requirements of its individual customers in this area, enabling CBM to provide tailored products and services through a targeted network of offices and cash offices as well as its payment terminal network without the costs and complexity of an extensive network of regional offices or supplementary offices.

Sustainable business model

CBM maintains a balanced loan portfolio structure focusing on corporate business operating in different sectors of the economy and is armed with historically strong expertise in retail and wholesale trading business. CBM's corporate loan portfolio accounted for 84.9% of CBM's total gross loans as at 31 December 2016. Despite negative changes in the operating environment in recent years, CBM maintains its corporate loan portfolio quality by keeping focus on sectors with an already established presence maintaining long-term customer relations. Apart from that, CBM is continuously monitoring the primary market trends, potential growth drivers, legislative initiatives and various sectors' players, flexibly adjusting its sectoral strategy and its target customer profile, when needed. CBM targets highly creditworthy corporate customers in such industries as oil and chemicals, food and agriculture, metal, transportation and other services, construction, pharmaceutical and healthcare, as well as large retailers and wholesale traders, in order to maintain and grow a balanced and diversified loan portfolio. CBM's corporate customers are also active users of trade finance (being direct importers/exporters of goods), acquiring and other commission products. Additionally, CBM has built a deep knowledge of and longstanding relationships with its corporate customers by leveraging off its leading cash handling services, which are an important product for retail and wholesale trading customers, and their use of these services aids CBM in monitoring the financial and liquidity positions of these customers.

CBM's portfolio also includes a well-established retail business, accounting for 15.1% of CBM's total

gross loans as at 31 December 2016, while a stable retail deposit funding base accounts for 36.1% of CBM's total customer deposits as at the same date. CBM offers a full range of retail banking products with a focus on other loans to individuals and mortgage loans, accounting for 95.1% of CBM's total loans to individuals as at 31 December 2016. Given the overall downturn on the Russian retail lending market, CBM focuses its cross-selling and other customer acquisition efforts on high quality customers, in particular customers with a verifiable positive credit history such as the employees and clients of its corporate customers, as well as quality customers of other banks and public sector employees. CBM's wide payment terminal network totalling 5,725 terminals gives it access to the payment history of a substantial number of potential customers thus minimising the risk of fraud and ensuring a better quality of customer base and business growth.

High service standards and efficient multichannel distribution

CBM sees offering high levels of customer service as key to attracting and retaining customers. A key component of its customer service offering is its widespread and multichannel distribution platform of, as at 31 December 2016, 91 branches, 24 cash offices, over 1,026 ATMs and 5,725 payment terminals, and remote banking provided through the internet, a call centre and Russia-wide partner programmes with other major Russian banks. This platform is supported by remote service channels for offering CBM's products to existing and potential customers.

CBM has one of the most extensive payment terminal networks in Moscow. The payment terminals are cost effective, moveable points-of-sale that serve as both customer service and customer acquisition channels. Through payment terminals, CBM's customers may pay their bills, open deposit accounts, deposit money into bank accounts, make wire transfers, apply for loans and repay loans. The customers of other banks may use CBM's payment terminals to make bill payments and loan repayments. CBM's offices are located in areas that are easily accessible by customers, and have extended opening hours to meet customer needs. CBM maintains the high quality and efficiency of its services by rigorously monitoring key performance indicators of each branch, and promoting fast and effective decision-making processes, particularly on loan applications, and enabling access to a wide range of products in a single visit to a branch.

CBM enhances its business efficiency by increasingly relying on remote channels for distribution of its products and services. CBM utilises advanced information technology to provide its customers with quick, user-friendly remote access to CBM's products and services. CBM provides electronic payment systems for corporate customers and an online banking system and mobile banking application for retail customers. In 2014, CBM's internet banking system was recognised as one of the top five in Russia by Markswebb Rank & Report, based on its service characteristics. Remote channels of distribution such as internet banking and physical distribution networks such as payment terminals together enable CBM's customers to have seven-day-per-week access to CBM's banking services.

Disciplined risk management driving asset quality

CBM's strong balance sheet, liquidity and capital positions are driven by its profitability (retained earnings) and disciplined risk management. CBM's historically low NPL ratio has remained relatively stable, although it has recently deteriorated due to the sharp downturn of the Russian economy. As at 31 December 2016, CBM's NPL ratio was 2.3%, its NPL coverage 263.3% and its cost of risk 4.65%. As at 31 December 2015, CBM's NPL ratio was 5.1%, its NPL coverage was 113.7% and its cost of risk 5.4%. See – “*Presentation of Financial Information – Non IFRS Measures*”.

CBM focuses on the quality of assets (measured by cost of risk and level of NPLs) as the key indicators of the performance of its loan portfolio, and relationship managers are incentivised to meet risk management targets. In line with its strategy to focus on asset quality, CBM emphasises customer selection and credit approval as a key element of its risk management. In its corporate business, each corporate customer has a dedicated credit officer who works with the customer to identify the best instrument out of CBM's wide product line to meet the customer's needs. However, in accordance

with the recently updated risk management policy, credit decisions in respect of the clients are made by the independent member of the risk-management team based on a comprehensive assessment of the customer's financial condition, industry prospects, competitive positioning, business reputation and available collateral.

CBM believes that its corporate customers, comprising top tier Russian companies operating in selected industries, tend to be more resilient to economic volatility and are less exposed to economic cycles. In recent years, CBM has broadened its focus to large and medium scale corporate clients in industry sectors more enduring to the economic conditions, such as oil and gas, food, transportation, etc. In addition, many of CBM's corporate loans have a shorter tenor, which CBM believes reduces the risk of default. CBM is also able to use information obtained from providing cash handling services, which are particularly important to its retail and wholesale trading customers, to pre-assess and monitor the ongoing financial condition of such customers. As at 31 December 2016, 34.3% of CBM's net corporate loans fell due within six months and 13.1% fell due within six months to one year. CBM also seeks to maintain a diversified customer base, and the top-10 corporate borrowers as at 31 December 2016 accounted for 27.6% of the gross loan portfolio.

With respect to retail customers, CBM deploys a sophisticated and highly automated credit risk management system which uses internal scoring models and is supported by CBM's database of customer information. In 2015 CBM has further sophisticated its corporate lending risk management system by delegating credit decisions to the risk management division independent from the corporate client managers. In its retail business, CBM has a targeted customer strategy focused on existing customers and new customers with verifiable positive credit profiles, such as on employees and clients of its corporate customers, customers with positive credit histories with their existing banks and public sector employees. CBM seeks to obtain significant information on existing and new retail customers prior to extending loans, for example, through providing payroll and other non-credit services to corporate customers whose employees CBM targets as retail customers and through data collected from the payment terminal network. CBM also maintains a centralised underwriting process with well-established and well-executed scoring procedures, which bases the scoring on the customer's reliability, credit history, stability of income, assets and liabilities and liquidity, supporting CBM's customer selection processes and risk management.

CBM also has a policy of maintaining a low level of engagement in high-risk products such as equity securities and illiquid securities. As at 31 December 2016, 74.2% of the CBM's total securities portfolio (includes available-for-sale securities and financial instruments at fair value through profit or loss and excludes derivative financial instruments) was composed of high-liquid securities qualified to be pledged against borrowings from the CBR.

High operational efficiency with a potential for further growth

CBM sees potential for capitalizing on further growth in the Moscow Area banking market, especially given its strategy to attract large and medium sized Russian corporates operating in different industry sectors and headquartered in Moscow. CBM has a modern, efficient and scalable banking platform, and believes that further growth in the Moscow Area banking market will enable it to capture economies of scale. For example, CBM's unified product programme enables an approved customer remotely to obtain and access products and services without having to revisit a branch, thus reducing branch network traffic and improving efficiency and the customer experience. The introduction of an integrated customer relationship management IT system has streamlined business processes and strengthened risk management capability through improved information sharing.

CBM's geographical focus in the Moscow Area also enables CBM to maintain a centrally focused management and to centralise many of its operations, and to avoid costs involved in operating and managing a more extensive regional branch network. CBM's strong balance sheet, regulatory capital position and diversified funding base also provide CBM with a solid platform, which enables it to grow its business at least at the general growth rate of the banking market in the Moscow Area.

Experienced management team and strong corporate governance

CBM has a strong, entrepreneurial management team with a proven track record of achieving growth and meeting financial performance targets. CBM's management team has extensive experience with the Russian banking market with an average of over ten years' experience in the financial sector. The management team has to a large extent grown with CBM, with an average tenure with the bank of more than eight years.

CBM's long-term goal is to maintain and further develop a strong corporate governance model. In 2012, CBM's governance was enhanced by the participation of the EBRD and IFC through the purchase of minority equity stakes and the appointment of EBRD's and IFC's representatives to CBM's Supervisory Board. In 2015, CBM further improved its corporate governance by the adoption of a revised Corporate Governance Code, Information Policy and Regulations on the governing bodies. CBM's Supervisory Board currently consists of ten members, of whom four are independent non-executive directors within the meaning of the U.K. Corporate Governance Code and two are representatives of the EBRD and IFC. Independent non-executive directors have been on CBM's Supervisory Board since 2008.

History of strong shareholder support

CBM's controlling shareholder is Mr. Roman Avdeev. Mr. Avdeev purchased CBM in 1994 and as at 31 December 2016 owns 56.8% of CBM's shares. Of Mr. Avdeev's assets, CBM is the asset with the highest value, with commercial real estate representing the majority of Mr. Avdeev's other assets. Mr. Avdeev has historically provided financial support to CBM for its capital growth. See "*Risk Factors – Risks Relating to CBM's Business and Industry – CBM is exposed to liquidity risk*" and "*Risk Factors - CBM's controlling shareholder may have interests that have an adverse impact on CBM and the Noteholders*". CBM's initial and secondary public offerings of ordinary shares in 2015 enabled the Bank to broaden the ranks of its shareholders.

Delivering sustainable profitable growth

CBM has a strong track record of organic growth with a 168.2% growth in total assets from 31 December 2014 to 31 December 2016, with its return on average equity amounting to 11.0% and return on average assets amounting to 0.8% for the year ended 31 December 2016. See – "*Presentation of Financial Information – Non-IFRS Measures*".

Strategy

CBM's strategic objective is to strengthen further its position as one of the leading private universal commercial banks in Russia and become the bank of first choice for its customers. It aims to continue to provide high-quality corporate and retail banking products and services based on best international and Russian practices while achieving strong and sustainable performance.

The following are the key elements of the CBM's strategy:

Maintain high asset quality

CBM adapted to negative changes in the operating environment in recent years by optimising and enhancing its risk management, limiting engagement in risk-related activities, further developing relations with its existing customers and attracting new high level borrowers, which has allowed it to maintain asset quality. To maintain its loan portfolio quality, CBM intends to keep focusing on sectors with an already established presence and maintain long-term customer relations. CBM's knowledge of earnings dynamics of its customers that use its cash handling services, and the ability to apply collected revenues to repay any outstanding loans, allows it to efficiently manage its credit and liquidity risks. As for retail lending, CBM adheres to a conservative risk assessment approach by placing emphasis on lending to low-risk customers: CBM's existing customers, its corporate

customers' and partners' employees and customers with good credit history. A well-built debt recovery system supports the CBM's loan portfolio quality.

Deliver further sustainable development

CBM is determined to strengthen its position among the top-five largest privately owned banks by concentrating on balanced and diversified growth with a focus on the corporate segment but retaining the retail segment share at its current level. CBM plans to maintain a highly competitive position in the market effectively by using internal and external resources to acquire quality retail customers, improving its products and raising its service quality, and by capitalising on the close relationships established with its corporate customers.

Reaching efficiency through cost control and revenue maximisation

CBM believes that its cost-to-income ratio is one of the most efficient in the Russian banking market. As at 31 December 2016, CBM's cost-to-income ratio amounted to 24.6%. See "*Presentation of Financial Information - Non-IFRS Measures*". CBM plans to keep its operational efficiency at a high level by optimising its operational expenses and increasing its operational income, and by further developing its management and control systems. Active implementation of CBM's cross selling strategy allows it to increase interest income by attracting low risk retail customers, such as employees of the CBM's corporate clients, thus also maintaining its retail portfolio quality. CBM's management believes that the diversification of its income structure ensures flexibility of the CBM's business model in current economic conditions.

Maintain high-quality corporate governance

CBM continuously improves its corporate governance system with account of best domestic and global practices. In 2015, CBM adopted revised Corporate Governance Code, Information Policy and Regulations on the governing bodies to further develop transparency and efficiency of its corporate governance. In addition, representatives of international development institutions present in the CBM's shareholding and governing structure pay special attention to CBM's corporate governance system and ensure its consistency with recognised international standards. CBM's strategic goal is to maintain and further develop strong corporate governance model.

Professional team building

As part of its efforts to maintain leading positions in the market, an important strategic goal of CBM is to improve the professional skillset of its employees. CBM plans to implement additional training programmes for its existing managerial staff and, where required, recruit external high skilled personnel.

Increasing brand value

In order to strengthen its competitive position in retail lending, CBM plans to distinguish its brand from competitors by focusing on the advantages of its customer services (speed, quality and convenience). The CBM's management believes that material investments in the CBM's brand awareness during the next 3-5 years will enable the bank to reach more efficient operational results and to pinpoint CBM among its peers. In accordance with this strategy, CBM plans to re-name INKAKHRAN and SKS Bank to reflect CBM's brand.

IT development as part of the client attraction and service tools and cost efficiency

Since IT is an engine for progress, CBM aims to actively develop its IT systems and solutions on a continuous basis in order to be well-positioned as compared to its competitors, optimise and improve the safety and efficiency of its banking IT systems.

CBM not only uses state-of-the-art technological platforms for the automation and optimisation of its

internal processes, but also tries to deliver most in-demand and up-to-date services within its remote banking solutions (CBM Mobile, CBM Online and ATMs/payment terminal systems for individuals, Your Bank in Your Office/Your Bank Online for corporate customers).

History

CBM was founded in 1992 and acquired by Mr. Roman Avdeev in 1994. In August 2012, EBRD and IFC each acquired a 7.5% equity stake in CBM by purchasing newly issued shares of CBM. In December 2012, IFC transferred a 4.6% equity stake to the IFC Russian Bank Capitalization Fund, which forms a group of companies with IFC. Through CBM's initial public offering of ordinary shares in July 2015 and secondary public offering in December 2015 on the Moscow Exchange, CBM has further diversified its shareholder base. As at the date of this Prospectus, the free float ratio amounted to 25% of CBM's share capital. CBM's rank (weight) in the MICEX Index, maintained by the Moscow Exchange, is No. 38.

In November 2015, CBM acquired 100% interest in INKAKHRAN Group, a company providing a full range of cash handling services for financial institutions, including collection, transportation and processing of cash and valuables. This acquisition enabled CBM to reinforce its position in the market of cash handling services.

In August 2016, CBM acquired SKS Bank. CBM plans to use this acquisition as platform for development of investment banking services and develop new banking product line for its clients.

Competition

The Russian banking market is highly competitive. According to the CBR, as at 1 January 2017, 975 banks and non-bank credit organisations were registered in Russia and the 20 largest banks held 78.1% of total banking assets. The largest Russian banks are concentrated in the Moscow Area (where CBM's business is concentrated), while large regional banks conduct most of their business in the central cities of their respective regions.

CBM faces competition from the leading domestic banks in each of the business areas in which it operates, and also from a number of foreign banks in certain business areas. However, as corporate customers often use a number of banks, CBM is not always in direct competition with its larger rivals in the Russian banking sector. As a result of the effects of the global financial crisis, CBM now faces far greater competition from state-controlled banks such as Sberbank, VTB and Gazprombank. Due to direct support of the Russian Federation, state-controlled banks generally have access to cheaper domestic sources of funding and are major beneficiaries of government programmes, including funding and liquidity support. Using these advantages, these banks can attract the largest clients by offering credit products with lower interest rates, and, as a result, maintain or increase their market share, without compromising net interest margins. Nonetheless, CBM and other moderately-sized private banks are able to compete with the large state-controlled banks on the basis of the products they offer, the service they provided to their customers, as well as efficiency in their decision-making process.

CBM considers its major competitors in the corporate lending market to be Sberbank, VTB, Bank "Otkritie", Alfa-Bank and Promsvyazbank. In the retail lending sector, CBM's most significant competitors include Sberbank, VTB 24, Alfa-Bank, B&N Bank, Raiffeisenbank and Unicredit Bank. See "*Risk Factors – Risks Relating to CBM's Business and Industry – CBM may face counterparty risk from other financial institutions*".

Subsidiaries

Below is the description of CBM's consolidated key subsidiaries:

- *MKB-Leasing Group.* CBM owns 100% of shares in LLC MKB-Leasing, a limited liability

company established in Russia and a holding company for a group of entities, which provide leasing services for corporate clients;

- *INKAKHRAN Group*. CBM owns 100% of shares in NKO INKAKHRAN (JSC), a non-banking organisation established in the form of a joint stock company in Russia and a holding company for a group of entities, which provide a full range of cash handling services for financial institutions and private commercial companies;
- *CBM Ireland Leasing Limited*. CBM owns 100% of shares in CBM Ireland Leasing Limited, a private limited company established in Ireland, which is engaged in operating leasing of aircraft;
- *CBOM Finance p.l.c.* The legal entity was established as a public limited company in Ireland to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to CBM. Although CBM does not have any direct or indirect shareholdings in this company, it is consolidated into CBM's IFRS financial statements in accordance with IFRS rules;
- *CJSC Mortgage Agent MKB and LLC Mortgage Agent MKB 2*. The legal entities were established as a closed joint stock company and a limited liability company, respectively, in Russia for the purposes of the mortgage loans securitisation launched by CBM in 2014 and 2016, respectively. Although CBM does not have any direct or indirect shareholdings in these companies, it is consolidated into CBM's IFRS financial statements in accordance with IFRS rules; and
- *LLC Bank SKS*. CBM owns 100% of shares in LLC Bank SKS, a company operating in investment banking activities. CBM took control of LLC "Bank SKS" in 2016 to reinforce its position in the investment banking market.

Business Operations

CBM has four reportable segments which are strategic business units. These strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guaranties, corporate deposit taking, settlements and money transfer, currency conversion;
- Retail banking: comprises retail demand and term deposit services; retail lending, including car loans, mortgages and other loans to individuals, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals;
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes; and
- Cash operations: comprises all operations connected with cash, cash handling, calculation and transportation.

Corporate Banking

Further development of the corporate banking segment remains a strategic priority for CBM. CBM offers its corporate customers a range of banking products and services, including corporate loans;

deposits; fee- and commission-based products and services such as trade finance, guarantees and letters of credit; other products and services such as payments, leasing, factoring and cash handling. As part of its emphasis on customer service, CBM also tailors certain products and services to its customers' needs. Moreover, CBM is one of the market leaders in providing cash handling services in the Moscow Area and is also considered a strong market player outside Moscow Area given recent acquisition of federal-scale cash handling operator INKAKHRAN.

CBM's customer base is presented by large and medium size companies operating indifferent sectors of the economy in Russia, though it maintained its historically strong expertise in the consumer sector comprising large and cash-intensive retail and wholesale trading companies, which make use of CBM's cash handling services. CBM is focused on developing multi-product relationships with its corporate banking customers. CBM seeks to cross-sell a range of products and services, including cash handling, guarantees, trade finance and other fee- and commission-based products, to its existing corporate customers and to market retail products to their employees and customers.

CBM has 7 corporate banking business centres, located in different parts of the Moscow Area and specialising in fee-based services for corporate customers only. At its corporate banking business centres, CBM offers tailor-made services to its corporate customers by assigning a dedicated manager to each corporate customer and providing on-going advisory services. CBM's corporate customers are also able to conduct banking business at any of CBM's offices. In addition, CBM's product and services are available to its clients through developed electronic long distance channels.

In its corporate banking business, CBM is focused on building its relationships with its corporate customers, to whom it can then cross-sell a range of different products and services, including the sale of retail products to their employees. CBM does not always seek to be the main lending bank for its corporate customers, which usually also conduct banking business with large state-owned banks, but rather CBM aims to provide additional value-added and complimentary services alongside the services provided by the state-controlled banks, rather than seeking to compete with them directly, in light of their competitive advantages in terms of size and cheaper sources of funding. See “– *Competition*”.

Corporate Lending

CBM offers its corporate customers a wide range of lending products, including overdrafts, loans backed by sales receivables, current account facilities, working capital loans and short-term loans, long-term fixed asset financing. The gross volume of CBM's total corporate loan portfolio was RUB566.2 billion as at 31 December 2016 as compared to RUB510.2 billion as at 31 December 2015.

In line with CBM's risk management policy of minimising all lending on an unsecured basis in its corporate lending, CBM takes collateral, either in the form of a pledge of assets or a corporate guarantee, in almost all circumstances, while overdrafts are mostly unsecured. In addition, a large portion of CBM's corporate loans have a short tenor.

As at 31 December 2016, corporate loans represented 84.9% of CBM's total gross loan portfolio. CBM's corporate banking business was traditionally focused on retail and wholesale trading corporate customers, enabling CBM to capitalize on the fast-growing Russian consumer market. In recent years CBM's client franchise was broadened towards large and medium sized Russian companies operating in different industry sectors with strong emphasis on customers' credit quality. As at 31 December 2016, 17.9% of CBM's gross corporate loans were to companies in the oil and industrial chemicals sector, 12.8% in the food and farm products sector, 11.0% in the property rental sector and 10.5% in the financial sector. While CBM has several strategic corporate customers, it aims to maintain a diverse corporate loan portfolio by industry to minimise the risk of any major impact on the overall business. As at 31 December 2016, NPLs in corporate loan portfolio accounted for 1.4% of CBM's gross corporate loan portfolio.

As at 31 December 2016, loans to CBM's 10 and 20 largest corporate borrowers comprised 27.6% and

43.5% of the gross loan portfolio respectively. CBM seeks to further diversify its loan portfolio by borrowers, including by attracting large, highly liquid borrowers with publicly traded debt or equity securities. See “*Operating and Financial Review –Loans to Customers*” and “*Risk Management – Credit Risk*” for a further discussion of CBM’s loan portfolio.

Corporate Deposits

CBM provides a range of current and term accounts to its corporate customers, and seeks to develop and offer new products to meet customer needs. CBM offers competitive interest rates on its corporate deposits and seeks to support margins through operational efficiencies, including by simplifying the execution of transactions, such as by facilitating paperless account opening and deposit procedures, and centralising operations and through its IT platform (particularly through its geographic focus on the Moscow Area). In addition to its current and term accounts deposit services, CBM offers its corporate customers the possibility of acquiring promissory notes issued by CBM, which are liquid debt financial instruments that can be further traded or used as collateral.

As at 31 December 2016, CBM had nearly 15,000 corporate depositors and the total volume of deposits by corporate customers amounted to RUB440.8 billion, representing 63.9% of CBM’s total customer deposits. CBM’s 20 largest corporate deposits comprised 51.5% of its deposits as at 31 December 2016 and 9.4% of CBM’s corporate deposits were current accounts as compared to 3.7% as at 31 December 2015. See “*Operating and Financial Review –Financial Position –Total Liabilities – Deposits by Customers*” for a further discussion of CBM’s customer deposits.

Trade Finance

CBM’s trade finance products include letters of credit, stand-by letters of credit, international guarantees and export-import financing. These products are internationally accepted instruments that aid in mitigating commercial and other risks. CBM transacts with more than 60 foreign banks in trade finance and is one of the leaders in this market segment among medium-sized Russian banks.

CBM co-operates with a number of export credit agencies (**ECAs**) to provide long-term ECA-backed financings of equipment purchases of its corporate customers. CBM was one of the first Russian banks to engage in ECA-backed financings after the 1998 Russian financial crisis. CBM also works with ECAs on short-term deals. Its payment guarantees for short-term transactions are accepted by Hermes (Germany), Ex-Im Bank (USA), SACE (Italy), COFACE (France), EKN (Sweden), OeKB (Austria), EDC (Canada), KUKE (Poland) and FINNVERA (Finland), thereby enabling CBM to provide financing of capital goods for its customers. CBM has also recently started to work with the Russian ECA EXIAR to support the exports of Russian companies, which is a positive addition to CBM’s export trade finance operations.

Fee- and commission-focused products

Fees and commissions generate a substantial part of CBM’s operating income, with fee and commission income amounting to RUB13.4 billion and comprising 24.9% of combined net interest income and fee and commission income for 2016. Products that are fee- and commission- focused within CBM’s corporate banking business are: domestic guarantees, payments, leasing and factoring. CBM’s strategy is to focus its fee and commission division development on acquisition of high quality customer base, which will enable CBM to increase its interest income without increasing credit exposure.

- **Domestic Guarantees:** Domestic bank guarantees represent an increasingly important source of fee income for CBM. They are particularly used by CBM’s larger corporate customers with publicly listed securities in connection with various tender and payment requirements. CBM offers tender or contract guarantees; performance bonds; payment and advance payment guarantees; and tax guarantees, all with a term of less than one year. Guarantees and letters of

credit represented 15.0% of CBM's total fee and commission income in the year ended 31 December 2016. Guarantees are an attractive product for CBM because, unlike loans, they are not priced based on CBM's cost of funds, which enables CBM to compete effectively with large, including state-controlled, banks in this area.

- **Payments:** CBM has a broad correspondent account network in all major currencies with leading financial institutions worldwide. CBM's correspondent network includes approximately 80 accounts held with domestic and foreign credit institutions, enabling CBM to effect payments to various parts of the world in a timely and cost-efficient manner.
- **Leasing:** CBM provides leasing services to customers for financing assets such as machinery, vehicles and other specialist equipment. CBM has a specialist leasing subsidiary, MKB-Leasing, in order to provide lease finance to customers. CBM offers its leasing services through a subsidiary for tax efficiency reasons. In 2016, CBM expanded its leasing business via newly established special purpose vehicle CBM Ireland Leasing Limited, registered in Ireland, for the purpose of operating leasing of aircraft.
- **Factoring:** CBM has offered its customers factoring services since 2005. Before July 2011, most of the factoring services provided by CBM were offered on a recourse basis, with recourse to the original creditors of the debts purchased by CBM if the respective debtors did not fulfil their payment obligations. In July 2011, CBM launched a new factoring service, which provides non-recourse factoring services for the creditors of medium-sized companies. CBM plans to grow its factoring business in the future, including outside of the Moscow Area. CBM's key competitors in the factoring market are VTB Factoring, Promsvyazbank, Alfa-Bank, Rosbank and others.

Retail Banking

CBM's retail banking services include retail lending products, such as consumer loans, mortgage loans, car loans and credit cards; services to employees of corporate banking customers (corporate plastic cards and payroll services); as well as personal services, including deposits, debit cards, payments and transfers, foreign exchange, investments in mutual funds, travellers cheques and safe deposit boxes. CBM's united product programme offering enables approved customers to access a wider range of CBM's retail products after one visit to the branch, without the need for further visits.

The main focus of CBM's retail banking business is providing general purpose consumer loans and mortgage loans. The following table shows the retail loan breakdown by product as at the dates indicated.

	As at 31 December					
	2016		2015		2014	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Auto loans	1,182.7	1.2	3,307.2	2.8	8,493.6	6.6
Mortgage loans.....	23,861.4	23.7	21,559.4	18.0	19,665.3	15.3
Credit card loans	3,782.6	3.8	4,141.3	3.4	5,163.9	4.1
Other loans to individuals.....	71,743.6	71.3	90,725.3	75.8	94,949.9	74.0
Total gross loans to individuals	100,570.3	100.0	119,733.1	100.0	128,272.7	100.0

CBM seeks to manage its existing customer base and to cross-sell products to its retail customers. In order to manage the costs of attracting new customers and retain existing customers, CBM leverages its existing customer relationships, focuses on high quality customers, offers innovative products and high standards of service, and offers an efficient and complementary, multichannel distribution network.

As at 31 December 2016, CBM had approximately 1,000,000 retail customers and its gross retail loan portfolio was RUB100.6 billion, amounting to 15.1% of CBM's total gross loan portfolio. As at 31 December 2016, NPLs in retail loan portfolio accounted for 7.3% of CBM's gross retail loan portfolio.

CBM has created a retail banking business centre, located in the central Moscow. At its retail banking business centre, retail banking customers have access to the full range of CBM's retail banking products, a high level of customer service and the use of advanced technology to expedite document preparation and processing. The retail business centre processes each transaction more quickly than CBM's typical office.

In the retail lending sector, CBM's most significant competitors are Sberbank, VTB 24, Alfa-Bank, Raiffeisenbank and Unicredit Bank.

Customers

CBM divides its retail customers into the following four categories:

- **Active existing customers** include existing larger depositors, employees of CBM, clients with a long positive credit history with CBM and active users of accounts with CBM. Large and long-established customers are considered the lowest credit risk by CBM;
- **Other existing customers** include existing small depositors, clients less active in their use of CBM accounts and clients with shorter credit history than those falling within the first group;
- **Target customers** include employees and clients of CBM's strategic partners and customers, clients with a positive credit history with other banks, as well as public sector employees. This category also includes customers on retirement pensions and payroll customers; and
- **Walk-in customers** are customers, including registered entrepreneurs, not falling within any of the above categories. They are considered the highest credit risk among CBM's customers.

CBM focuses on cross-selling its retail products to its existing customers and new corporate channel customers. CBM targets these customer categories, as they are customers about which CBM possesses relatively more extensive and accurate information and, accordingly, whom it considers to be relatively lower credit risk. CBM targets retail customers over the age of 25 with a higher education; employed at a stable private company or a state company; with a monthly salary between RUB50,000 and RUB100,000 and a debt-to-income ratio of less than 40%. CBM calculates a debt-to-income ratio for the borrower as monthly total payments on loans (including repayment of debt in other banks) divided by monthly total income.

For customers with deposits of more than RUB10 million, CBM offers "Individual Banking", a more personalised premium service that provides the customer with a personal manager. Such premium customers also receive a higher interest rate on their deposits with CBM.

Products and Services

General Purpose Consumer Loans

General purpose consumer loans are unsecured cash loans provided to retail customers for unspecified purposes. General purpose consumer loans are, and are expected to remain, the main driver for CBM's retail business in the future. CBM offers general purpose consumer loans to finance various purchases and other activities, with maturities ranging from six months to 5 years and an average annual interest rate around 20%. CBM seeks to differentiate its general purpose consumer loan offerings by selling through its network of terminals and providing for easy loan repayment through those terminals and ATMs.

As at 31 December 2016, CBM's gross loans to individuals amounted to RUB100.6 billion, with other loans to individuals comprising 71.3% of this amount as compared to RUB119.7 billion and 75.8% as at 31 December 2015.

CBM also offers insurance contracts processing services in respect of its consumer loans, partnering with several insurance companies to provide group unemployment and life insurance to its consumer loan customers. Part of the insurance premium paid by the customer to the insurance company is transferred to CBM as an agency commission.

Mortgage Lending

CBM's mortgage loan products are focused on medium and high income customers, particularly employees of its corporate customers and partner organisations, to finance the purchase of residential properties generally of a value between RUB1.0 million and RUB7.0 million, particularly sales on the primary market (newly built housing). Mortgage lending enables CBM to cross-sell its other retail products, and it is cost-efficient, as CBM's partnerships with real estate agents do not entail payment of commissions or referral fees. As at 31 December 2016, CBM had outstanding mortgage loans of RUB23.9 billion, comprising 23.7% of CBM's gross loans to individuals. In the mortgage lending market, CBM's most significant competitors include Sberbank, VTB 24 and Société Générale (Rosbank and Delta Credit).

Debit and Credit Cards

CBM offers a wide range of debit and credit cards to its customers. CBM is a principal member of the VISA International and MasterCard payment systems. In August 2014 CBM signed a cooperation agreement with JCB International Co, the largest Japanese payment system, and in November, 2014 CBM signed a cooperation agreement with UnionPay International, one of the leading payment systems in China. As at 31 December 2016, CBM had almost 2.6 million debit and credit cards in issue, an increase of approximately 20.5% since 1 January 2016.

CBM aims to offer its retail customers innovative debit and credit card products. Within the last several years, CBM has introduced a card that can be combined with a Moscow metro pass, a card tailored to customers who frequently travel, a card aimed at making customs payments easier; chip and contactless payment credit cards, a new premium card with access to the global premium programme, and a "union card" which combines the features of a debit card and credit card which was named the "Credit card of the year" by Banki.ru in February 2014.

In order to promote the use of its bank services and products, CBM is actively promoting the use of CBM's debit and credit cards for electronic payments and developing partner programmes with its corporate customers, such as co-branded card products. CBM's cardholders receive discounts on payments made with CBM's debit and credit cards in various restaurants and shops, and in some cases are eligible for banks rewards programs for performing a particular number of transactions using CBM's debit and credit cards.

CBM also offers acquiring services to its retail and wholesale trading customers, which facilitate and make more efficient the credit card payment transaction processes of those customers with their clients. For example, CBM was among the first banks in Russia to implement a regular payments system, enabling some of CBM's retail and wholesale trading customers to process direct debit from customers' cards.

Auto Loans

CBM offers auto loans to existing customers as a standard banking product, rather than through partnerships with automotive dealers, and each car loan is secured on the car that the customer purchases with the loan proceeds. A customer is also required to insure the vehicle and assign the benefit of the insurance to CBM. As at 31 December 2016, CBM's auto loan portfolio was RUB1.2

billion, comprising 1.2% of CBM's gross loans to individuals.

Retail Deposits

Deposits from retail customers are a significant source of funding for CBM. As at 31 December 2016, CBM had deposits by individuals in the amount of RUB248.7 billion, comprising 36.1% of CBM's total deposits by customers. As at the same date, term deposits and current accounts and demand deposits comprised 94.7 and 5.3% of total deposits by individuals, respectively. CBM seeks to improve the cost of its funding by increasing the share of demand deposits, which generally bear lower interest rates than term deposits.

Over the past several years, CBM has significantly increased its retail customer deposits base as a result of improvements it has made to its product range, an aggressive marketing campaign, expansion of its distribution platform in Moscow and improvement of customer service.

CBM's deposit accounts include current accounts and demand deposits and term deposits and are denominated in roubles, U.S. dollars and euros. While the average term on CBM's deposits from retail customers as at 31 December 2016 was 12 months, under Russian law term deposits may be withdrawn at any time, upon request of the customer. See *"Risk Factors – Risks Relating to CBM's Business and Industry – CBM is exposed to liquidity risk"*.

Treasury

Through its treasury function, CBM participates in the interbank foreign exchange, international, domestic, government and corporate bonds and securities markets. CBM's securities portfolio consists primarily of Russian government, municipal and corporate bonds with high credit ratings, as well as promissory notes of Russian banks. CBM has a conservative policy with respect to its securities portfolio and trades securities on a proprietary basis solely for the purpose of managing its liquidity. CBM's financial instruments at fair value through profit or loss together with available-for-sale securities, represented 8.3% of its total assets as at 31 December 2016. The majority of CBM's securities portfolio was represented by bonds on the CBR's Lombard and Repo lists. The CBR Lombard list is a list of securities which are accepted by the CBR as security for the loans granted by the CBR. The CBR Repo list is a list of securities which are accepted for repo transactions. CBM conducts foreign exchange activities both for its own account and on behalf of its customers. CBM does not engage in derivative transactions for speculative purposes. CBM's foreign currency position is managed by the Treasury Department, which reports to CBM's Financial Markets Operations Division and the Assets and Liabilities Committee (the **"ALCO"**). See *"Risk Management – Market Risk – Currency Risk"*.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Corporate Risk Management Division of CBM and approved by the ALCO. See *"Risk Management – Market Risk – Securities Portfolio Risk"*.

Cash Operations

CBM offers cash handling services for businesses, and is one of the market leaders in providing cash handling services to businesses in Russia. CBM's cash handling platform expanded significantly in late 2015, following the acquisition of INKAKHRAN, a company providing a full range of cash handling services for financial institutions, including collection, transportation and processing of cash and valuables, which operates in 24 regions of Russian Federation. Cash handling services are in high demand in Russia, where cash payments account for 85% of all payment transactions, according to the CBR. CBM's cash handling business is important in acquiring new corporate customers and helps it to monitor the liquidity and cash flows of its customers and, consequently, to monitor credit risks. CBM also uses its cash handling services more efficiently to collect and deliver cash from and to its ATMs

and payment terminals, which tend to be located along its cash handling collection routes. CBM believes its cash handling business has significant synergies with its corporate banking business, such as cross-selling of corporate banking services, and is a key contributor to developing long-term multi-product relationships with its corporate customers. CBM believes that the provision of cash handling services helps to differentiate CBM from its competitors, thereby assisting CBM to attract and retain corporate customers. CBM's cash handling fleet also serves as moving advertisements for its services and brand. CBM's main competitors in cash handling services are Sberbank, Rosinkas and Alfa-Bank. CBM is developing and expanding its cash handling business by introducing new automated systems, acquiring new technological equipment and optimising internal operations.

Customers of CBM's cash handling services include large retail and wholesale trading companies that have cash-intensive businesses as well as other banks that outsource their cash handling services. CBM can credit collected cash to its customers' accounts, which provides convenience to customers and a source of cash to CBM's banking business. CBM is able to use the insight gained through its cash handling services to better understand the financial condition of its corporate customers and more effectively mitigate and manage risks associated with such customers. For example, in the course of its lending to corporate customers, CBM may identify "early warning" signs of potential credit difficulties; it may be notified of increased refusals from certain cash handling points; and its cash handling personnel may visually inspect retail outlets. CBM may take recourse to the cash either in transfer after being collected through its cash handling services or deposited into accounts at CBM should corporate borrowers fail to meet their obligations under their loan agreements with CBM. In addition to its corporate customer base, CBM provides cash handling services to other banks and their clients, which gives CBM exposure to the client bases of other banks, as many banks outsource cash handling services that fall outside of what they consider to be their core banking business.

CBM also seeks to develop and expand the range of cash handling services it offers. Since December 2010, CBM has provided the "INKASSLOGIST" service, which collects accounting documents from cash handling points for delivery to the customer's head office or to a CBM branch near an office of the customer's offices. CBM is also currently developing automated collection and crediting products, which will enable it to offer faster crediting of cash to customer accounts and improve the efficiency of its cash handling routes.

At CBM's cash handling settlement centres, cash is physically delivered, counted and credited to customers' deposit accounts. CBM uses more than 700 armoured cash collection vehicles to perform its cash handling services, 455 of which account to INKAHKRAN, and intends to continue expanding its cash handling business.

As at 31 December 2016, CBM had over 566 cash handling routes and over 3,500 cash handling service customers, of which more than 200 were banks, including Sberbank, VTB, Alfa-Bank and Russian Agricultural Bank. These include INKAKHRAN, which accounts for 524 routes and 2,332 clients, 162 of which are banks. CBM's cash handling customer base is diversified across different segments of the retail trading sector, wholesale trading sector and financial sector.

Distribution Network

Offices and Cash Offices

As at 31 December 2016, CBM had 91 offices, including 7 corporate banking centres dedicated to serving corporate customers and one retail banking business centre. CBM's offices operate seven days per week, with extended opening hours to accommodate to customers' needs. At its corporate business centres, CBM offers individual services to its corporate customers by assigning a personal manager to each corporate customer and providing on-going advisory services. At CBM's retail banking business centre, retail banking customers have access to the full range of CBM's retail banking products, a high level of customer service and the use of advanced technology to expedite document preparation and processing. CBM plans to further expand its branch network in order to initially attract and process

high-quality retail customers, which further transfer the majority of their banking operations to CBM's online banking system.

As at 31 December 2016, CBM had 24 cash offices. These cash offices provide services relating to cash operations, money transfers and foreign exchange purchases and sales. The majority of CBM's premises used for cash offices are leased.

ATMs

As at 31 December 2016, CBM had over 1,026 ATMs in its ATM network. In addition, CBM's retail banking customers are able to use, free of commission, the ATMs of four other Russian banks: Rosgosstrakh Bank (formerly Russ-Bank), which has ATMs located in 60 Russian cities; UniCredit Bank; Raiffeisenbank and Alfa-Bank. CBM's customers can use ATMs in a network of more than 7,000 ATMs throughout Russia on the same terms as using CBM's ATMs.

Payment Terminals

In addition to its ATM network, as at 31 December 2016 CBM had over 5,725 payment terminals. CBM sees its payment terminal network as a relatively low-cost means of expanding its distribution and customer service network, and providing opportunities to acquire new customers. CBM's payment terminal network is one of the largest networks in Russia, and CBM ranked 2nd in Moscow based on the number of payment terminals as at 1 January 2013, according to RBC Rating. CBM seeks to locate its payment terminals in areas with high customer traffic, such as cafes, shopping malls, airports and train stations. At CBM's payment terminals, customers may make a wide range of payments, including payments to more than 400 organisations for mobile telecommunications services, internet and cable television services, housing services, utilities services and traffic fines. Customers can also use CBM's payment terminals to open deposit accounts and make deposits, make wire transfers, and apply for and repay loans extended by CBM and other banks. CBM aims to continue to expand the functionality of its payment terminals by offering an increased range of related banking services from its payment terminals. CBM estimates that the cost of installing one payment terminal is approximately U.S.\$4,000, as compared to approximately U.S.\$12,500 for one ATM, or U.S.\$31,000 with "custom" features, and payment terminals can be moved for limited cost if locations do not meet targeted performance criteria. In addition to generating fee and commission income for CBM, CBM uses information obtained through its payment terminals as part of its risk management procedures. In particular, CBM uses certain information obtained through payment terminals of customers who have set up a payment terminal account with CBM to make credit decisions when making loans to such customers. Payment terminals also facilitate acquisition of new customers, as they are exposed to CBM's brand advertising, services and product offerings. CBM estimates that more than half of the applicants for its retail loans in 2015 had used its payment terminals at least once prior to making applications.

Internet and Mobile Banking

CBM provides a wide range of remote services for individual and corporate customers, in addition to its physical network of offices, cash offices, payment terminals and ATMs. CBM offers an internet banking system called CBM Online to its retail customers, and in 2012 CBM launched a new mobile application banking service, CBM Mobile, which can be accessed through the use of a mobile phone, iPad or similar devices based on the iOS or Android software platforms. In 2014 CBM was recognised by Markswebb Rank & Report as offering the second best and most efficient internet banking system in Russia. CBM's strategy is to provide that over 50% of its retail customers transfer all of their banking operations to internet banking services by 2019. CBM also offers an internet banking system to its corporate customers called "Your bank in your office", through which corporate customers can request bank statements and make payments.

Call Centres

CBM also has call centres where it can receive incoming calls from potential customers and make outgoing calls for telemarketing purposes. The call centres are directly linked with CBM's payment terminals.

Direct Sales Agents

Direct sales agents market CBM's products and services to employees of its corporate customers at their premises. CBM's corporate customers are incentivised to cross-sell CBM's products.

Growth Prospects

CBM plans to optimise its branch network by closely monitoring performance and closing ineffective offices and opening new ones in more favourable locations that have higher customer footfall. In order to manage costs, CBM plans to further distribute customers to remote and direct sales agent sales channels, which management believes will help to reduce the costs of loan underwriting and maintenance.

Information Technology

Information technology ("IT") is an integral part of CBM's operations. CBM's IT development policy is directed at the improvement of CBM's technologies, as well as the development, optimisation and enhancement of CBM's information systems, and CBM seeks to improve its IT systems in order to increase CBM's competitive edge and improve the quality of customer services.

CBM has three secure data processing centres that have independent power supplies and are fitted with firefighting and air conditioning systems. These data processing centres operate as a single distribution data centre. This structure ensures that a breakdown of one of the data processing centres does not lead to a failure of CBM's IT system. CBM uses software purchased from vendors such as Oracle, Microsoft, IBM, SAS, as well as software developed by CBM specialists. All of CBM's systems are regularly reviewed and updated in order to ensure the reliability of the system and security of the data which CBM holds. As at the date of this Prospectus, there have been no system failures which have affected CBM's operations.

In order to allocate resources for advancing its IT systems and to identify particular bottlenecks, CBM classifies its IT systems into four categories based on the required safety level and fault tolerance: Mission Critical, Business Critical, Business Operational and Office Productivity. It then commits its resources based on the category, thus ensuring an appropriate level of support for each IT system.

CBM's card processing centre is based on TSYS Card Tech software, and in 2013 the processing centre was upgraded to Europay, Mastercard and Visa technology for both issuing cards and processing card payments. The centre has its own personalisation bureau, ATM, point of sale terminal and kiosk networks.

In 2014 and 2015, CBM continued to improve its retail customer relationship management ("CRM") platform, created on the basis of Oracle Siebel CRM. New products have been added, including credit cards, commission products, schemes of first visit as well as the automation of claims activities and marketing systems. CBM then turned to corporate CRM implementation, which was the next stage in the development of a common CRM platform. The organisation of retail and corporate CRM onto a single platform allows CBM to synergise the relevant processes. In 2014, CBM also started to implement a credit conveyor for corporate business on the basis of the industrial platform "Forecast. Credit portfolio management".

These projects are aimed at the gradual reduction of the operational costs of CBM, increasing operations efficiency, as well as the expansion of CBM's product range.

Insurance

CBM has a comprehensive bankers blanket bond (“**BBB**”) insurance policy with Rosgosstrakh, one of Russia’s major insurance companies, covering against criminal and professional liability, including risks of illegal activity by third parties and employees. This policy covers a range of risks associated with CBM’s operations, including property, deposits (such as those received via cash handling operations) and the risk of electronic fraud. The policy also covers the risk of criminal acts by CBM’s employees and provides cover for CBM’s liability for any damage caused to third parties in the course of its banking activities. The cost of the policy varies with the changing level of insurable assets, and CBM monitors the coverage to ensure that it maintains an appropriate level of coverage.

In addition to the BBB insurance policy, CBM has real estate and property insurance policies covering the buildings and premises owned by CBM. CBM insures valuables on its premises, including cash in the operational offices, payment terminals and ATMs, and maintains corporate and individual public liability insurance policies and policies covering CBM’s property interests related to its liability to indemnify third parties for any bodily injury or property damage with regard to the rented premises. CBM is a member of the Retail Deposit Insurance System which is mandatory for all Russian banks involved in retail deposit taking.

In 2016, CBM purchased a D&O insurance policy from Rosgosstrakh. The policy covers liability of the members of the Supervisory Board, Management Board and the Chairman of the Management Board. The policy provides for U.S.\$50 million coverage.

Employees

The following table sets forth the number of employees of CBM by functional business areas as at the dates indicated below:

	As at 31 December					
	2016		2015		2014	
	Number	% of total	Number	% of total	Number	% of total
Cash handling.....	2,066	20%	2,348	38%	1,096	23%
Retail network.....	816	15%	1,093	18%	975	21%
Retail.....	663	12%	484	8%	491	10%
Corporate.....	262	5%	243	4%	262	6%
Contact centre.....	235	4%	242	4%	242	5%
IT.....	335	6%	311	5%	281	6%
Other.....	2,018	37%	1,491	24%	1,336	29%
Total	6,395	100%	6,212	100%	4,683	100%

The average age of CBM’s employees is 34, and approximately 62% of CBM’s employees have a higher professional education. There are no collective bargaining agreements with CBM’s employees.

The increase in the number of CBM’s employees in recent years reflects the growth in CBM’s business, including the opening of new offices and the expansion of CBM’s cash handling business.

CBM has its own corporate training centre where training specialists conduct various internal training programmes and courses on a regular basis. Training programmes are in place for all employees and management including basic training for employees of any business line, skills training for the retail segment, a “Management Succession” program for the training of future directors of offices, a training and development programme for the underwriting department, a training and development programme for contact centre employees and a “Growth School” project.

CBM has incentive programmes for employees in the areas of corporate banking, retail banking, underwriting, loan recovery, legal and contact centre. The incentive programmes involve payment of bonuses based on achieving target key quantitative performance indicators or success in specific projects for a particular business area or position, subject to defined criteria.

CBM does not have pension arrangements aside from the state pension of the Russian Federation. The Russian Federation pension system requires contributions from CBM in respect of its employees, calculated as a percentage of current gross salary payments.

Legal Proceedings

From time to time, CBM is subject of legal proceedings and other investigations in the ordinary course of its business. As at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CBM is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on CBM's financial position or profitability.

RISK MANAGEMENT

Introduction

CBM has a centralised and sophisticated risk management system supported by its modern IT infrastructure and automated risk management processes. CBM believes that it has a well-balanced approach to managing credit risk versus expected returns, based on thorough client selection and differentiated offering of banking products for different types of clients, effective utilisation of client and transaction data (including information from cash handling business and payment terminals), advanced and automated underwriting, established monitoring and collection processes. In addition to managing credit risk, CBM constantly monitors its exposure to market risks, including interest rate, foreign currency, liquidity and operational risks, making corresponding changes when required to the products and services it offers.

CBM's risk management goal is to ensure stability and reliability, as well as protection of interests of its shareholders and customers in carrying out its principal activity and achieving the results envisaged by the CBM's strategy. CBM's key risk management principles, instruments and functions of various bodies are set forth in the Risk Management Policy which is approved by the Supervisory Board.

CBM's existing risk management system adheres and conforms to the following principles:

- the principle of compliance with CBM's overall strategy in the most effective way (i.e. with maximum profitability and minimum risks);
- the principle of risk management independence. Risk management subdivisions cannot form part of any subdivisions taking risks and fulfilling CBM's business plan or report to a senior manager who supervises any such subdivisions;
- the principle of risk management responsibility for the methodological, analytical, control and coordinating role in CBM's overall risk management system;
- the principle of minimisation of risks at the level of CBM's senior management and collegial bodies;
- the principle of taking measures to minimise the probability of risks and/or to reduce the consequences of accepted risks;
- the principle of risk management representatives in place at all of CBM's collegial bodies that have the authority to assume any type of risk;
- the principle of standardisation of products, services and procedures applied in any office of CBM to reduce unexpected risks as a result of human error;
- the principle of three-level risk management: (i) strategic: risk management at the level of CBM as a whole; (ii) tactical: risk management at the level of specific business areas; and (iii) operative: risk management at the level of individual counterparties (borrowers, issuers), exposures, instruments and processes;
- the principle of a full integration of the risk management function into the corporate governance procedure: all processes in CBM should be built in accordance with the risk management policies and standards. The risk management function must be involved in any decisions made to develop or implement new, or upgrade existing objectives, plans or products of CBM, and in setting priorities in its activities;
- the principle of a risk management system as a centralised structure responsible for managing all significant risks;

- the principle of a division of risk management functions into risk determination, discovery, assessment, monitoring and reporting, control;
- the principle of awareness and engagement of all departments into approaches and methods of risk management;
- the principle of risk analysis whereby all risks are accepted only following the detailed analysis by CBM's risk management function. CBM does not accept any risk that has not been assessed quantitatively or qualitatively; and
- the principle of whereby the quality of the risk management system and the level of accepted risk remuneration, compensation and incentives of executives affects.

In addition, CBM has a Risk and Capital Management Strategy, which is also approved by the Supervisory Board. The Strategy outlines internal capital adequacy management methodology, and provides for principles for material risks designation, analysis and forecasting, assessment of CBM's planned capital limits and structure, as well as the respective reporting system. CBM's capital adequacy management goals include:

- compliance with regulatory capital adequacy ratios established by the CBR;
- provisioning of CBM's financial stability, including in the event of the deflationary macroeconomic conditions; and
- maintenance of the CBM's capital base at the level compliant with Basel standards.

CBM's reporting system enables it to ensure effective risk and capital adequacy management and provides for proper compliance of the managerial decisions with applicable standards and regular participation of the Supervisory Board and other CBM's governing bodies in capital adequacy management activities. The reporting system sets out key measures to enhance CBM's risk management and ensure its regulatory compliance through measures such as automation of risk management and control processes, as well as development and implementation of advanced risk evaluation methodologies.

The Risk Management Department is responsible for consolidation of all reported information and preparations of reports on all material types of risks.

Organisational Structure

CBM's risk management functions are carried out by several collegial bodies and internal divisions that are responsible for establishing risk management policies and procedures, including the establishment of limits, and implementing CBM's policies and procedures, including monitoring and controlling risks and limits on a continuous basis. Below is a description of CBM's principal risk management bodies.

Supervisory Board

The Supervisory Board is a governing body reporting to the General Shareholders' Meeting. The Supervisory Board has overall responsibility for the establishment and oversight of CBM's risk management framework. The functions of the Supervisory Board include:

- overall management and establishment of CBM's priority lines of business and strategic goals of risk management;
- approving CBM's risk and capital management strategy and policy, as well as approving the risk management procedures with regard to CBM's most significant risks (including the upper limits for risk appetite indicators) and supervising its implementation;

- approving the procedure for application of methodologies for managing risks and models of quantitative risk assessment, including assessment of CBM's assets and liabilities, off-balance sheet commitments, as well as scenarios and results of stress-testing (in the cases contemplated by the law);
- approving the procedure for preventing conflicts of interests, solvency restoring plan in the event of material deterioration of CBM's financial position and business continuity action plan (in the cases contemplated by the law);
- approving major and interested party transactions (as defined under Russian law) and transactions with related parties (as defined under IFRS) in the cases and in accordance with the procedures contemplated by CBM's Charter and the current legislation; and
- reviewing of the internal risk and capital adequacy management reports and overall efficiency of risk management performance, reports on material risks and results of respective stress testing, reports on regulatory ratios compliance and results of capital adequacy analysis.

Audit and Risk Committee

The Audit and Risk Committee is formed under the Supervisory Board. The committee's functions include:

- maintaining efficiency of internal control and risk management procedures;
- maintaining the Supervisory Board's control over activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence; and
- implementing and promoting a culture of risk management within CBM.

Management Board

The Management Board is the executive body which is responsible for CBM's operations and the implementation of decisions of the General Shareholders' Meeting and Supervisory Board. The Management Board is responsible for the overall direction of CBM's activities and makes decisions with respect to CBM's day-to-day operations. The Management Board's functions include:

- implementation of decisions of the General Shareholders' Meeting and Supervisory Board, as well as recommendations of the Audit Commission, overseeing CBM's risk management activity and ensuring effective implementation of the Risk Management Policy;
- forming committees and delegating to such committees part of its authority under the relevant regulations;
- approving internal regulations, policies, guidance, instructions, rules and other internal documents;
- allocation of the values of risk appetite indicators established by the Supervisory Board across CBM's divisions, business lines, products, operations and instruments;
- approving risk limits and making decisions in relation to transactions that fall beyond the relevant management's/committees' authority;
- reviewing and approving internal risk and capital adequacy management reports and overall efficiency of risk management performance, reports on material risks and results of respective stress testing, reports on regulatory ratios compliance and results of capital adequacy analysis; and

- establishing interest rates and tariffs for banking services.

Corporate Credit Committee

The Corporate Credit Committee is a collegial body reporting to the Management Board that is responsible for the implementation of CBM's corporate lending policies. The Corporate Credit Committee's responsibilities include the following:

- coordinating CBM's lending activity;
- management of CBM's credit risks through approving and changing credit limits, approving credit and certain other qualified transactions within its authority, including transactions and limits that require subsequent approval of the Management Board;
- controlling the quality of CBM's loan portfolio;
- approving all restructurings of corporate customers' loans within its authority; and
- qualifying loans and certain other qualified transactions as problem loans (*problemnie*), bad debts (*beznadezhnie*) and unrecoverable loans (*nerealnie k wziskaniu*); approval of roadmaps for management of problem loans.

Retail Credit Committee

The Retail Credit Committee is a collegial body reporting to the Management Board and responsible for implementation of CBM's retail lending policies. The responsibilities of the committee include approving loans to individuals and restructuring conditions on an individual basis. The Retail Credit Committee's responsibilities include the following:

- approving loans to individuals;
- taking decisions on acceptance of new individual borrowers;
- approving restructurings of retail loans;
- approving any assignment of retail loans, as well as applicable discount for security in case of its enforcement; and
- taking decisions on qualification of a retail loan into a higher category for provision purposes.

ALCO

The Assets and Liabilities Committee ("**ALCO**") is a collegial body reporting to the Management Board and responsible for establishing the strategy for the attraction and allocation of funds, the strategic and operating management of risks related to the deterioration of capital and liquidity, and currency and interest rate risks, as well as the implementation of CBM's investment policy. ALCO's functions include:

- approval of the strategy for attraction and allocation of funds;
- defining the general structure of CBM's assets and liabilities, including categorising assets by risk, profitability and maturity;
- establishing credit risk limits for financial market counterparties and debt securities (if limits are established with regard to transactions on the financial markets and loan origination, the limits are established by the Corporate Credit Committee and the Management Board);
- establishing types of financial instruments used by CBM;

- managing capital adequacy risks;
- managing market, interest rate and liquidity risks; and
- managing CBM's open currency position.

Corporate Clients Committee

The Corporate Clients Committee is a body reporting to the Management Board and responsible for the implementation of CBM's client policy with respect to corporate lending. The Corporate Clients Committee's main responsibilities include:

- setting the strategy for developing relations with corporate clients, taking managerial decisions on CBM's interaction with corporate clients and ensuring CBM's competitive performance, including efficient sales of banking products and services and quality of client servicing; and
- deciding on tariff setting for CBM's products and services taking into account regulation of risk and total profitability.

Risk Management Committee

The Risk Management Committee is a body reporting to the Management Board and responsible for the implementation of CBM's risk management policy with respect to credit, market, operational, legal and compliance risks. The functions of the Risk Management Committee include:

- approving methodologies and algorithms for calculating risk indicators (risk metrics) and limits;
- elaborating on recommendations to CBM's management bodies on the methods and instruments to reduce risk, optimise balance between risk and profitability in corporate and retail business lines;
- approval of policies, regulations, orders and other internal procedures proving for risk management system of CBM, as well as giving recommendations as to their improvement (within authorities delegated by the Management Board);
- approving changes in CBM's internal processes relating to credit risk taking;
- review and approval of the internal regulations proving for goals, principles and procedures for CBM's risk management system, its evolution and list of material risks (prior to their approval by the higher governing bodies of CBM);
- recommendations on credit risk limits for borrowers, industries, region and country (credit risk allocation);
- monitoring the quality of CBM's loan portfolio, in whole or with respect to certain segments, through risk metrics;
- approving the list of persons authorised to approve credit risks accepted on retail loans;
- monitoring the results of application of powers of CBM's bodies and authorised persons to take and manage credit risk; and
- reviewing and approving internal risk and capital adequacy management reports and overall efficiency of risk management performance, reports on material risks and results of respective stress testing, reports on regulatory ratios compliance and results of capital adequacy analysis.

Risk Management Department

The Risk Management Department is a specialised independent risk management division reporting to the Chairman of the Management Board which elaborates, implements, performs and improves CBM's risk management system. In addition, the Risk Management Department is responsible for managing credit, market, currency and loan concentration risks, as well as managing liquidity and interest rate risks at the strategic level.

The functions of the Risk Management Department include:

- ensuring efficiency of CBM's risk management system in compliance with CBM's Risk Management Policy, international practices, regulatory standards of the CBR and other regulatory authorities;
- ensuring efficient managerial decision-taking system with regards to risk management;
- developing, enhancement and application of the quantitative (models of internal credit ratings) and qualitative (creditworthiness analysis) analysis of the credit and market risks, as well as concentration and currency risks;
- elaborating, agreeing and supporting CBM's various internal regulations governing the risk management system together with other CBM's departments;
- evaluating, analysing and preparing an independent opinion on credit risks and loan concentration risk within the existing credit process and financial market operations process, providing recommendations on their management;
- developing, planning and controlling of risk appetite tests, including limits and red flags;
- developing and revision of the CBM's Risk Management Strategy;
- developing functional requirements for CBM's IT-systems (volume and quality of data, programme complexes, etc.) required for performance by the divisions of its goals, participation in their implementation and testing;
- development, enhancement and application of CBM's risk limits system, control over implementation of certain risk limits;
- participating in development and implementation of procedures for identification of potentially problem loans and bad debt recovery;
- monitoring of macroeconomic environment as a whole or in certain industries, in particular, preparing industry reports and analysis, as well as forecasting CBM losses depending on the distribution of the loan portfolio by industries;
- developing risk management reporting system;
- identifying and reporting credit risk factors to CBM's divisions and management on an ongoing basis, including through the system of daily, monthly and quarterly reporting across business lines;
- developing and management of corporate lending;
- identifying significant risks;
- regular stress-testing of significant risks;

- developing, enhancing, documenting and supporting the corporate loan origination process; and
- monitoring of the lending activities of CBM's divisions.

Under CBM's risk management policy, the officers of the Risk Management Department participate in the meetings of collegial bodies of CBM, which review the acceptance of risks for which the Risk Management Department is responsible. At the meetings of collegial bodies the officers of the Risk Management Department have the veto right.

Retail Credit Department

The Retail Credit Department is a structural unit within CBM reporting to the Deputy Chairman of the Management Board and responsible for the implementation of the retail lending policy, as well as the implementation of retail risk management and loan recovery. The functions of the Retail Credit Department include:

- elaborating, agreeing and supporting CBM's various internal regulations governing the retail lending risk management system in line with retail lending policy, as well as coordinating with other bodies participating in developing such internal regulations;
- developing, enhancement and application of the business processes and CBM's IT system with respect to quantitative and qualitative analysis of the credit risk and underwriting;
- developing and supporting the decision making system for retail lending transactions associated with credit risk;
- monitoring and analysis of the retail loans portfolio, ascertaining trends affecting the quality of the portfolio;
- assessing existing business practices in retail lending and recommendations on optimisation and risk management; and
- providing for procedures for identification of bad debts, improvement of the retail bad debts management and recovery.

Internal Control Service

The Internal Control Service is CBM's independent structural subdivision, reporting to the Chairman of the Management Board which performs internal control functions at CBM. The main responsibilities of the Internal Control Service include:

- ensuring CBM's compliance with Russian legislation, including CBR regulations;
- ensuring an efficient and reliable system of internal controls;
- ensuring neither CBM nor its employees are involved in unlawful activity, including money laundering and terrorist financing, as well as provision for timely reporting to the regulatory authorities of the Russian Federation;
- ensuring identification, recording and coordination of risk management activities in terms of loss prevention that may occur as a result of a failure to comply with federal laws and other regulatory requirements of the Russian Federation, internal documents of CBM, imposed sanctions and/or application of other enforcement measures from supervisory and regulatory authorities;

- development and implementation of the internal regulations providing for operational (including legal and compliance) and reputational risk management;
- effecting procedures aimed at compliance with corporate ethics rules;
- identification of the conflicts of interest and control over the existence of any conflict of interest;
- timely assessment of the operational risk (including legal and compliance);
- quantitative and qualitative analysis of the operational risk and control over implementation of operational and reputational (including legal and compliance) risk limits; and
- informing the Risk Management Department on the results of assessment of risk indicators and compliance with established limits and red flags with regard to operational (legal and compliance) and reputational risks.

Financial Department

The Financial Department is a structural subdivision reporting to the Chairman of the Management Board and is responsible for implementation and development of the liquidity, interest rate and strategic risk management. The main functions are:

- elaborating on CBM's development strategy;
- planning and controlling the performance of CBM's key operational indicators;
- planning and controlling of capital including broken down by type of risks, establishing of red flags and limits, as well as monitoring of allocated capital against the purposes and tests;
- participating in planning of risk appetite indicators, as well as controlling their performance;
- controlling CBM's compliance with regulatory and management ratios;
- controlling liquidity level forecasts;
- forecasting fluctuations in CBM's net interest margin;
- analysing the maturity profiles in deteriorating market conditions;
- providing recommendations for maturities, amount and interest rates of the issued loans;
- analysing and monitoring the risk indicators and controlling liquidity, interest rate and strategic risks limits; and
- informing the Risk Management Department on the results of assessment of risk indicators and compliance with established limits and red flags with regard to liquidity, interest rate and strategic risks.

Other Divisions

Other internal divisions perform other functions relating to risk management in accordance with CBM's Risk Management Policy and other internal policies and regulations.

Internal Audit Department

The Internal Audit Department is CBM's structural subdivision, controlled by and reporting directly to the Supervisory Board. The main responsibilities of the Internal Audit Department include ensuring

compliance with requirements to efficiency of CBM's risk management analysis, and providing independent analysis and recommendations based on the results of CBM's internal audit aimed at an increase in efficiency of internal control systems, risk management and corporate governance.

Credit Risk

Credit risk is the main risk to which CBM is exposed given the nature of its business and balance-sheet structure. The source of this type of risk is CBM's exposure to losses due to non-performance, late or partial performance by a debtor of its financial obligations to CBM under existing agreements and to consequences of a deteriorated condition of its borrowers, counterparties or securities issuers.

CBM has a multi-level comprehensive credit risk management system allowing it to minimise the risk of losses in lending. CBM creates provisions for its lending operations in line with the risk it assumes strictly in accordance with the CBR's recommendations and requirements. In 2015, the credit risk management system was significantly improved through transfer of the credit approval function to the independent risk management division, members of which are not affected by client managers or lending officers. Such transfer allowed the members of the risk management team to make prudent credit decision based on analysis of the client's financial condition, credit history and market reputation.

To reduce its exposure to credit risk, CBM has limited the total amount of credit risk per borrower (group of related borrowers). All lending limit requests trigger an independent risk measurement by the Risk Management Directorate, aimed at a comprehensive and thorough analysis of potential borrowers. Credit risks are managed based on limits set for various types of transactions and subject to the regular monitoring of borrowers' creditworthiness. CBM also thoroughly and prudently analyses potential and current borrowers in respect of their economic security, evaluates collateral taken to secure borrower obligations to CBM and then monitors its availability and changes in its actual value throughout the entire life cycle of the loan product. All loan-related documents are subject to comprehensive due diligence. The credit risk includes:

- risk of default – the probability of losses as a result of default by the borrower due to failure to comply with the agreement, as well as a result of a worsening of the financial condition of the borrower, counterparty or issuer of securities; and
- risk of counterparty – the probability that the counterparty will fail to comply with the agreement by the settlement date under the agreement. The transactions are not made without the prior assessment of the financial condition of the counterparty.

Corporate Loan Approval Process

CBM manages its credit risk by placing credit limits on the borrowers. Limits are placed in accordance with the respective internal regulation, approved by the Management Board. Borrowers are provided with lending limits and sublimits depending on the purpose of the loan. Each corporate client of CBM has a dedicated client manager, who is responsible for the sale of CBM's products and services to that client, including maintenance of the current loan portfolio of the client. Client managers scrutinise ongoing credit transactions of the corporate clients and oversee client's compliance with covenants and credit limits, as well as generally monitor client's activity.

Upon the receipt of a loan application, client managers perform due diligence of all the required documentation and participate in structuring of the loan. The financial analysis of an applicant is performed by a specific division within the CBM depending on the organisational type of the entity. Financial analysis is performed in two stages (i) a preliminary analysis based upon a limited number of documents aimed at a fast elimination of ineligible applicants; and (ii) full financial analysis of the applicant by respective expert divisions of CBM.

CBM constantly improves its collateral evaluation policies. CBM accepts different types of assets as collateral from its corporate clients due to its flexibility and client-oriented business model. The value of the collateral offered by the borrower is generally evaluated by the Collateral Appraisal and Monitoring Unit. CBM employs external specialists in cases where it requires additional capacity.

The authorisation system for risk approval of corporate loans is regularly reviewed by the Management Board. Level of the authorisation depends on the amount of credit risk exposure and risk management authority of the particular division or employee of CBM.

The Management Board establishes lending limits and approves loans in excess of RUB2 billion or if the terms of a transaction deviate from CBM's standard lending terms. Lending limits or loans for a principal amount up to RUB2 billion are approved by the Risk Management Department.

Retail Loan Approval Process

Loan applications for retail clients are completed by the applicant. As part of their loan application, individuals must provide information on their income, the purpose of the loan and the proposed collateral (where applicable). CBM has a multichannel distribution network, which includes offices, payment terminals, a call centre and online banking through which applications for retail loans can be made.

In its retail loan approval process for general purpose consumer loans and credit card loans, CBM uses the Siebel 8 CRM module platform, which is integrated with SAS Real-Time Decision Manager, online decision making module developed by SAS. It allows consolidating all risk procedures for credit application processing, including:

- determining risk strategy for application processing;
- automated processing of various internal and external informational verification sources with respect to a borrower, including credit bureaus, scoring bureaus, information on client's payments through CBM's payment terminals, the history of using by the client of CBM's products, "stop-lists";
- determination of the client's compliance with minimum requirements and client profile;
- identification of the client segment category;
- checking the pre-approved decisions on credit products;
- scoring of default probability using a combined application/behavioural scoring model developed by CBM based on SAS Credit scoring;
- calculation of lending limits, validation of pre-approved credit products and forming credit products for cross-selling (if available); and
- routing of further application processing, including the possibility of automated decision making, choosing stages of underwriting verification and authority level for decision making.

Depending on the client category and risk level, credit application processing involves participation of a credit specialist (underwriter) who takes additional measures for the verification of a credit application. For existing CBM clients which meet certain criteria, such as default probability below certain thresholds, a decision on a credit application for a consumer or credit card loan is taken automatically based on the relevant scoring model, while for other clients an underwriter implements verification stages offered by the system, including telephonic verification of contact data, analysis of specified income and expenses, verification of the documents provided and confirmation of the borrower's employment. The extent of verification (i.e. light checks or a more comprehensive

verification) depends on the client's risk profile. The results of underwriter's decision are processed through SAS Real-Time Decision Manager. The final decision on an application is taken upon completion of all applicable automated and manual stages of application verification, together with the accepted parameters of a credit product of cross selling. The Retail Credit Risk Division determines lending limits for standard retail products and calibrates the decision making system accordingly as well as sets internal procedures and instructions for underwriters. There is flexibility if timely and efficient regulation of authorisation or cut-off levels and applications routing depending on the risk appetite and lending strategy. A significant proportion of general purpose consumer and credit card loans are issued on a pre-approved basis. CBM identifies existing clients as well as new clients with verifiable positive credit profiles to whom CBM may offer credit products or increase limits for existing products and pre-approves the relevant products or limit increases. Loan applications made by such clients still go through the scoring and necessary underwriters checks.

All car loans and mortgage loans applications are processed by an underwriter. Levels of authority of risk acceptance and particular persons authorised to make decisions with respect to retail loans approval are determined by the Management Board. Different types of loans have varying threshold amounts, and depending on the threshold amount can be qualified as applications subject to mandatory review by one or other risk management body. For example, general purpose loans filed by business owners are reviewed, *inter alia*, by the Corporate Risk Management Department if they exceed specified limit.

In general, loans exceeding RUB2 million are submitted for review by the Retail Credit Committee, while loans exceeding RUB200 million are subject to approval by the Management Board. Authority limits for each of the Deputy Chairs of the Management Board are set individually.

Collateral

To limit risks, and as required by CBM's existing internal regulations, CBM requires that corporate loan products, except for overdraft type credit products and other short-term financing for up to 90 days to CBM's largest top-quality borrowers, and some retail loan products be secured by either a pledge of assets or a suretyship or guarantee. CBM's policies require that not less than 50% of its corporate loan portfolio is secured by pledges of suitable collateral. Collateral is evaluated by the Collateral Appraisal and Monitoring Unit and/or accredited independent appraisal companies. Collateral is also subject to the Legal Division's legal assessment. The collateral portfolio is revaluated and maintained on the basis of regular on-site visits and reports by the Corporate Risk Management Division. CBM's collateral policy sets the principles and standards to be applied to collateral, provides a list of acceptable assets, establishes assessment criteria, applicable discount rates, monitoring and revaluation parameters.

CBM uses an established set of procedures, including information analysis, assessment, monitoring and revaluation to determine acceptable credit risk/collateral ratios as well as to identify physical changes in the pledge status as well as potential changes in the business environment.

CBM generally accepts as security commercial and residential property, plots of land, long-term real estate lease rights, equipment, vehicles (including self-propelled ones), inventory, property interests, claims, shares, participatory interests and securities. Assets are subject to haircuts based on CBM's internal discounting matrix elaborated for various types of assets depending on their quality, liquidity and certain other factors.

CBM conducts ongoing collateral monitoring with respect to both corporate and retail clients to confirm the actual condition and value of collateral, and to timely identify any possible legal risks which could affect the quality of the collateral portfolio. The current value of collateral is regularly assessed by either independent appraisers or internal specialists and in the event of negative movements in market prices, corporate borrowers are usually required to provide additional collateral.

The Corporate Risk Management Division reports any breaches identified to CBM's authorised bodies and makes recommendations as to how to mitigate the risk of loss of collateral.

As at 31 December 2016, 44% of CBM's corporate loan portfolio was secured by a pledge of assets, with a majority of the remainder being supported by corporate sureties. CBM's mortgage loans are secured by the underlying real estate and car loans are secured on the underlying vehicle. CBM's Corporate Risk Management Division establishes and controls reports of accredited independent appraisal companies for mortgage loans and confirms reports for pledged assets with the value exceeding RUB15 million.

The following table sets out information on collateral securing loans to CBM's corporate customers, net of loan impairment allowance, by types of collateral as at 31 December 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
	(RUB millions)		
Securities.....	90,256.0	83,371.2	31,324.9
Real estate.....	78,106.3	82,071.4	67,975.8
Equipment and motor vehicles.....	33,036.1	28,178.1	24,369.1
Goods in turnover.....	16,379.6	14,548.1	11,157.1
Claims for contract receivable.....	9,826.6	3,105.4	11,495.8
Guaranteed deposits.....	4,992.2	4,992.0	-
CBM's own debt securities.....	1,116.3	8,471.0	182.7
Corporate sureties and no collateral.....	299,757.0	257,686.0	111,046.1
Total loans to corporate customers.....	533,470.0	482,423.2	257,551.5

Loan Portfolio Monitoring and Control and Loan Recovery

Corporate Loans

The monitoring of credit exposure on corporate loans is carried out for all clients on a continuous basis. Corporate Risk Management Division performs general portfolio monitoring on a quarterly basis. This process involves the assessment of the overall loan portfolio quality, including the total number and amount of overdue loans, breakdown of loans by risk groups, regional, industrial, currency and product breakdowns, the observance of limits and an assessment of overall profitability.

Quarterly monitoring of individual credit exposures is performed by a number of CBM's internal divisions, including corporate business divisions, cash handling service and Collateral Appraisal and Loan Portfolio Monitoring Unit which undertake ongoing monitoring of a borrower's compliance with its lending restrictions, financial performance and creditworthiness and repayment profile to reveal potential issues and identifying any deterioration in credit quality. Any deviations are reported to the Corporate Risk Management Division. The review is based on the borrower's most recent financial statements and other information submitted by the borrower, or otherwise obtained by CBM.

Clients who have shown signs of distress (such as breach of financial covenants, loss of collateral, decrease in the amounts of cash handled for collection, etc.) are transferred to the individual monitoring mode. Depending on the characteristics of warning signals, a specific set of measures may be applied to manage their loans.

Clients may be recognised as problematic on a case by case basis by the Corporate Credit Committee, who also determines the strategy for further work with such clients. Corporate loan recovery is dealt with on a case-by-case basis, and may include loan restructuring, including loan extension and increase of collateral, acceleration of debt, court proceedings, foreclosure and sale of collateral, attachment of accounts, claims under guarantees or assignment of claims under relevant loans to third parties. In some cases, ability to control flow of funds on clients' accounts through direct debit rights enables CBM to effectively collect the loan without court proceedings. CBM's Legal Division may also delegate certain actions with respect to collection of past due loans to a collection service.

Retail Loans

For exposure under retail loans, monitoring of repayments under individual loans is performed on an automated basis. In addition, based on information from CBM's internal sources as well as from credit bureaus, behaviour scorecard is applied to each existing client once in two or three months to assess the actual situation and take portfolio-specific action, if required. Retail Credit Risk Division regularly undertakes a comprehensive and system-wide monitoring and analysis (including factor analysis) of retail loan portfolio quality, including breakdown of loans by various criteria such as products, client categories, sales channels, social profile, overdue loans and others.

Retail clients are recognised as problematic automatically if they have a payment overdue for more than 60 days, or on the basis of opinion of CBM's Collection Department if there exist reliable information on a loan's potential non-recoverability (death, fraud, loss of collateral, etc.).

Retail loan recovery consists of the following procedure:

- ***Pre-collection.*** From 10 days prior to the due date, CBM sends reminders, usually in the form of an SMS text message to a borrower's mobile phone to inform the borrower about the upcoming due date, in order to prevent loans from becoming past due. The majority of CBM's retail loans contemplate a securing payment to be made 10 to 15 days before the regular due date in consideration for a borrower getting a better interest rate on respective loan. In addition, CBM has implemented a recurrent payments system enabling direct debit from clients' cards issued by third party banks where this has been agreed by the clients in the relevant loan agreements.
- ***Soft collection.*** For up to 60 days past the due date, CBM's Collection Department starts interaction with debtors from the first day past the due date, for confirmation of payment or fraud detection, by way of phone calls, email, voice mail, letters and SMS. This procedure is aimed at motivating the customer to repay the debt. Further collection actions are determined based on the results of previous activities and debtor's response.
- ***Hard collection.*** From 60 days past the due date, or earlier in the case of fraud, the loan recovery process is delegated to a qualified loan recovery officer within the Collection Department, who is authorised to determine the individual approach and recovery measures to be used to a specific borrower. From 120 days past the due date, the loan recovery process is delegated to collection service that works with CBM under an agency agreement. CBM reviews the efficiency of collection agencies with change in agencies after 90 days, if applicable. The procedure for claiming the debt includes negotiating with the borrower or guarantor, mailing an official claim to the borrower, commencing pre-trial proceedings and visiting the client in an attempt to negotiate settlement. When the preceding measures have been exhausted, CBM institutes court proceedings, court enforcement proceedings, arrest of pledge and sale of property.

Asset Quality, Provisioning and Write-off Policy

CBM classifies loans overdue over 90 days as NPLs. The level of CBM's NPLs as a percentage of total gross loans to customers was 2.3%, 5.1% and 2.3% as at 31 December 2016, 2015 and 2014, respectively. NPLs in CBM's corporate loan portfolio accounted for 1.4%, 4.5% and 0.4% of gross loans to corporate customers as at 31 December 2016, 2015 and 2014, respectively. NPLs in CBM's retail loan portfolio accounted for 7.3%, 7.9% and 6.3% of gross loans to individuals as at 31 December 2016, 2015 and 2014, respectively. See – “*Operating and Financial Review - Past Due Loans*” and “*Operating and Financial Review - Significant Factors Affecting Results of Operations and Financial Position - Loan Portfolio and Provisioning*”.

CBM writes off its NPLs and the respective allowances for impairment only if it believes that actions to recover debt would incur more costs than the amount recovered. Under CBM's internal policy, an NPL can be written off on the basis of the relevant credit committee's decision if the amount of the debt amount is less than 1% of CBM's own capital, or on the basis of a decision by the Management Board if the debt amount is over 1% of CBM's own capital, provided that there are documents evidencing the impossibility of recovering the debt, such as judicial orders or documents issued by state authorities.

Market Risk

The source of this type of risk is CBM's exposure to losses and negative consequences due to adverse changes in the market value of financial instruments in its trading book and derivatives, and in exchange rates of currencies and/or precious metals.

The market risk includes the following types of risks:

- *instrument interest rate risk* - the risk of negative consequences due to adverse changes in interest rates on instruments of the securities portfolio (in particular, the risk of negative revaluation of the securities portfolio due to changes in interest rates on fixed-income debt instruments);
- *Currency risk* - the risk of negative consequences arising from changes in foreign exchange rates and / or precious metals due to adverse changes in the value of financial instruments nominated in foreign currency and (or) precious metals included in the trading portfolio. The basis for calculating the magnitude of the currency risk of a trading portfolio is the amount of interest and stock risks on instruments nominated in foreign currency;
- *equity risk* - the risk of negative consequences arising from unfavorable changes in market prices for stock values (securities, including options) of the trading portfolio and derivative financial instruments under the influence of factors related both to the issuer of stock valuables and derivative financial instruments, and general fluctuations in market prices for financial instruments.

Operating in the financial market, CBM assumes risks of instruments in its trading portfolio (risks of adverse changes in the prices of equity instruments, changes in interest rates of fixed income debt instruments, as well as changes in currency exchange rates and the resulting negative revaluation of its trading portfolio).

CBM manages market risk as required by the CBR's regulations and also uses internal methods compliant with Basel guidelines.

CBM manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by CBM's ALCO. All market operations are also performed within credit risk limits established by the Management Board, ALCO and Corporate Credit Committee. In addition, CBM uses stress tests to model the financial impact of different market scenarios.

CBM has a conservative policy with respect to its securities portfolio and trades securities on a proprietary basis solely for the purpose of managing its liquidity. The majority of CBM's securities portfolio was represented by bonds in the CBR's Lombard and Repo lists. In order to assess the market risk, CBM calculates maximum exposure per security as well as value-at-risk measure for the whole portfolio.

Currency Risk

Since CBM's assets, liabilities and other commitments are denominated in several currencies, it is exposed to currency risk as a result of the effects on its financial position and cash flows of fluctuations in the prevailing foreign currency exchange rates. CBM's currency risks primarily arise in the context of raising funds in foreign currency and undertaking the majority of its operations in the domestic currency.

CBM conducts foreign exchange activities both for its own account and on behalf of customers. CBM uses currency forwards to hedge its foreign currency exposure and to manage its liquidity position; CBM does not engage in derivative transactions for speculative purposes.

Managing the currency risk of the balance sheet provides for limiting the value of the open currency positions of CBM by setting appropriate limits. ALCO sets limits on the level of exposure by currencies in compliance with minimum requirements established by the CBR. The following measures are taken to manage CBM's currency risk:

- CBM monitors open foreign currency position in certain foreign currencies and precious metals is below the 10% limit of CBR Instruction No. 124-I;
- Limits are set on the amount of CBM's open position in each currency and are regularly reviewed using value-at-risk methodologies, with limits on losses related to unfavourable currency exchange rate changes are set (stop-loss limits); and
- CBM uses an automated system that manages the amounts of its open foreign currency position, within the established limits.

The tables below set out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2016, 2015 and 2014.

	As at 31 December 2016				As at 31 December 2015			
	U.S.\$	RUB	Other currencies	Total	U.S.\$	RUB	Other currencies	Total
	RUB millions							
Assets								
Cash and cash equivalents	261,477.9	102,868.6	8,980.0	373,326.5	59,727.3	72,654.4	5,632.9	138,014.6
Obligatory reserves with the CBR.....	-	7,286.9	-	7,286.9	-	5,936.1	-	5,936.1
Due from credit and other financial institutions.....	267,558.6	132,133.5	3,788.0	403,480.1	209,513.3	14,053.6	53,729.0	277,295.9
Financial instruments at fair value through profit or loss	42,132.4	41,513.1	263.0	83,908.5	2,712.0	69,335.1	89.9	72,137.0
Available-for-sale securities.....	25,208.3	20,695.2	-	45,903.5	79,312.9	8,090.0	-	87,402.9
Loans to customers	146,122.7	468,413.2	11,999.2	626,535.1	182,818.0	394,026.7	16,220.6	593,065.3
Property and equipment.....	14,270.9	7,007.2	-	21,278.1	-	7,004.4	-	7,004.4
Other assets	271.3	5,927.8	50.8	6,249.9	18,144.9	9,186.1	13.4	27,344.5
Total assets.....	757,042.1	785,845.5	25,081.0	1,567,968.6	522,228.4	580,286.4	75,685.8	1,208,200.6
Liabilities								
Deposits by the CBR.....	184,150.1	63,019.4	-	247,169.5	4,044.6	-	-	4,044.6
Deposits by credit and other financial	90,319.1	283,679.9	7,625.5	381,624.5	12,210.9	29,503.4	42,945.6	84,659.9

institutions.....								
Deposits by								
customers	251,021.1	425,730.7	12,744.0	689,495.7	461,502.1	419,521.4	17,668.8	898,692.3
Debt securities								
issued.....	92,395.4	43,662.4	1,145.6	137,203.4	73,615.1	47,539.7	-	121,154.8
Deferred tax								
liability	-	189.9	-	189.9	-	2,380.5	-	2,380.5
Other liabilities.....	1,627.9	7,204.4	52.8	8,885.1	803.9	3,937.5	188.7	4,930.1
Total liabilities	619,513.6	823,486.7	21,567.8	1,464,568.0	552,176.6	502,882.5	60,803.1	1,115,862.2
Net position								
before hedging	137,528.5	(37,641.1)	3,513.2	103,400.6	51.8	77,403.9	14,882.7	92,338.4
Derivative								
financial								
instruments	(140,221.8)	145,636.1	(5,414.3)	-	(14,276.0)	29,973.1	(15,697.1)	-
Net position	(2,693.2)	107,994.9	(1,901.1)	103,400.6	(14,224.2)	107,377.0	(814.4)	92,338.4

	As at 31 December 2014			
	U.S.\$	RUB	Other currencies	Total
	RUB millions			
Assets				
Cash and cash equivalents.....	41,451.9	66,576.9	10,668.2	118,696.9
Obligatory reserves with the CBR.....	-	3,360.1	-	3,360.1
Due from credit institutions.....	-	5,832.1	1,048.5	6,880.6
Financial instruments at fair value through profit or loss	977.0	48,214.6	673.0	49,864.6
Available-for-sale securities.....	7,891.7	3,219.9	-	11,111.6
Loans to customers.....	78,156.2	293,000.0	6,858.1	378,014.3
Property and equipment	-	7,399.3	-	7,399.3
Goodwill	-	301.1	-	301.1
Current tax asset.....	-	1,311.5	-	1,311.5
Other assets	149.2	7,731.0	18.7	7,898.9
Total assets.....	128,626.0	436,946.5	19,266.5	584,839.0
Liabilities				
Deposits by the CBR.....	95.2	11,499.2	-	11,594.4
Deposits by credit institutions	40,952.8	7,797.5	5,552.7	54,303.0
Deposits by customers.....	37,635.3	283,532.6	13,684.4	334,852.2
Debt securities issued	55,758.8	62,862.5	-	118,621.3
Income tax liability.....	-	2,210.0	-	2,210.0
Other liabilities.....	330.3	2,861.8	78.4	3,270.6
Total liabilities	134,772.4	370,763.6	19,315.5	524,851.5
Net position before hedging	(6,146.4)	66,182.9	(49.0)	59,987.5
Derivative financial instruments.....	5,491.4	(5,446.3)	(45.1)	-
Net position	(655.0)	60,736.6	(94.1)	59,987.5

Interest Rate Risk

The risk of deterioration of CBM's financial condition through a decrease of its capital, income level or asset value resulting from a change in market interest rates affecting its assets and liabilities other than its trading portfolio. Balance sheet interest rate risk stems from mismatches between maturities of, or between changes in interest rates on assets and liabilities.

Fluctuations in interest rates have an impact upon the operations of CBM. During the periods under review, movements in short- and long-term interest rates have affected both CBM's interest income and interest expense, as well as CBM's level of gains and losses on its securities portfolio.

To limit the impact of adverse interest rate fluctuations on CBM's financial results, CBM performs statistical analyses and makes projections to determine the optimal allocation of CBM's assets and the composition of its liabilities. CBM manages interest rate risk by maintaining an interest margin

(including an interest risk component), by matching funding and exposures with floating and fixed interest rates, and by matching maturities.

Final decisions as to balance sheet interest rate risk are taken by a collective body, the Asset and Liability Committee, thus ensuring comprehensive and effective control over that risk. CBM sets and regularly controls limits on this type of risk, restricting the indicators of effectiveness of loan funds and business profitability and maximum interest rate gaps on various time.

The table below sets out CBM's exposure to interest rate risk. The table below presents the aggregate amounts of financial assets and liabilities at carrying amounts, categorised by earlier of contractual interest repricing or maturity dates, as at 31 December 2016, 2015 and 2014.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
	RUB millions					
As at 31 December 2016						
Interest-bearing assets	355,557.1	431,674.8	227,049.8	397,675.5	6,311.6	1,418,268.7
Interest-bearing liabilities	625,435.0	381,408.6	215,736.7	174,321.1	-	1,396,901.4
Net interest sensitivity gap as at 31 December 2016.....	(269,877.8)	50,266.2	11,313.1	223,354.3	6,311.6	21,367.3
As at 31 December 2015						
Interest-bearing assets	147,306.3	365,148.4	128,667.4	442,361.4	25,662.9	1,109,146.4
Interest-bearing liabilities	138,270.3	367,129.4	391,302.4	166,058.8	-	1,062,760.9
Net interest sensitivity gap as at 31 December 2015.....	9,036.0	(1,981.0)	(262,635.0)	276,302.6	25,662.9	46,385.5
As at 31 December 2014						
Interest-bearing assets	95,372.4	116,256.1	68,692.1	232,329.9	6,499.0	519,149.5
Interest-bearing liabilities	95,667.8	148,720.7	80,140.8	164,229.4	-	488,758.7
Net interest sensitivity gap as at 31 December 2014.....	(295.4)	(32,464.6)	(11,448.7)	68,100.5	6,499.0	30,390.8

See Notes 29 to the 2016 Annual Financial Statements and the 2015 Annual Financial Statements.

Securities Portfolio Risk

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or price movements. CBM's securities portfolio, which it actively trades, consists primarily of Russian government and municipal securities, corporate bonds and promissory notes of Russian banks. CBM's holdings of financial instruments at fair value through profit or loss as at 31 December 2016 was RUB83.9 billion as compared to RUB72.1 billion as at 31 December 2015 and RUB49.9 billion as at 31 December 2014. Available-for-sale securities as at 31 December 2016 were RUB45.9 billion as compared to RUB87.4 billion as at 31 December 2015 and RUB11.1 billion as at 31 December 2014.

As at 31 December 2016, the majority of CBM's total bond portfolio consisted of highly liquid bonds from the CBR Lombard and Repo lists, which are eligible for repo transactions and gives CBM the flexibility to seek liquidity from the CBR if required. This may also mean that the securities can be relatively easily exchanged for cash in the relevant market.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Financial Risk Analysis Department and approved by ALCO, taking into consideration CBM's liquidity position and various liquidity management scenarios. CBM has a general policy of not investing in equity securities, and accordingly CBM's equity investments are limited to liquid shares of large, highly liquid Russian companies. Equity securities represented 0.10% of CBM's total securities portfolio as at 31 December 2016 as compared to 0.07% and 0.00% as at 31 December 2015 and 2014, respectively.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in CBM being unable to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. CBM seeks to have sufficient liquidity to meet its current and future obligations and funding needs at reasonable market rates. CBM's operations are principally funded through customer deposits (both corporate and retail), and to a lesser extent interbank borrowings and debt funding in both the Russian and international capital markets. In addition, CBM recently formed a sufficient liquidity cushion – as at 31 December 2016 cash and cash equivalents composed 23.8% of total assets; securities portfolio, that is highly liquid, amounted to 8.3% of total assets and interbank assets that are mostly represented by Repo deals backed by high-quality securities included in the Lombard List, comprised 25.7%. The liquidity cushion could be used to help CBM meet liquidity needs. CBM also has access to liquidity from the CBR on a secured basis, but in practice it does not actively utilise such liquidity.

CBM is subject to liquidity requirements set by the CBR, which exercises strict control over liquidity risk by establishing instant (N2) and current (N3) statutory liquidity ratios. The risks relating to sources of funding are controlled by the CBR in accordance with the capital adequacy (N1) standard and long-term liquidity (N4) standard. The CBR requires that such ratios be complied on a daily basis and CBM is required to provide a monthly statement demonstrating that it has complied with such ratios on a daily basis for the relevant statement period.

Management of CBM identifies the following forms of liquidity risk:

- *risk of discrepancy* between the amounts and dates of receipts and write-offs of cash (incoming and outgoing cash flows);
- *risk of unforeseen liquidity requirements* - the risk that future unforeseen events may require more resources than envisaged;
- *risk of market liquidity* - the risk of loss associated with disposal of assets or impossibility of closing existing position due to insufficient market liquidity or insufficient trading volumes. The occurrence of this form of risk can be taken into account in assessing market risk;
- *risk of funding* - the risk associated with potential changes in the cost of funding (own and market credit spread), affecting the amount of future income of CBM.

The procedures for managing the liquidity risk of CBM include the following elements:

- factors of occurrence of this type of risk;
- procedures for determining the needs of the credit institution for funding, including determining the liquidity surplus / deficit and the maximum allowable excess / liquidity limits (liquidity limits);
- the procedure for preparing a liquidity forecast and analysing the liquidity situation for a different time period (short-term, current, long-term liquidity);
- the procedure for establishing liquidity limits and determining methods for monitoring compliance with these limits, informing the management of the credit institution on the violations of limits, as well as the procedure for eliminating them;
- procedures for daily liquidity management, and liquidity management over longer time intervals;
- methods for analysing the liquidity of assets and the sustainability of liabilities; and

- liquidity recovery procedures, including decision-making procedures for the mobilization (sale) of liquid assets, and other possible (and most accessible) ways of attracting additional resources in the event of a liquidity shortage.

Final decisions as to liquidity risk are taken by ALCO, thus ensuring comprehensive and effective control over the liquidity risk.

The following table sets forth CBM's consolidated liquidity position as at 31 December 2016.

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
RUB millions								
ASSETS								
Cash and cash equivalents	373,327	-	-	-	-	-	-	373,327
Obligatory reserves with the CBR.....	-	-	-	-	-	7,287	-	7,287
Deposits in credit and other financial institutions.....	-	275,272	128,207	-	-	-	-	403,479
Financial instruments at fair value through profit or loss	82,111	1,797	-	-	-	-	-	83,908
Available-for-sale securities.....	32,801	200	-	10,664	2,126	112	-	45,903
Loans to customers.....	85,362	129,280	82,226	254,194	69,161	-	6,312	626,535
Property and equipment	-	-	-	-	-	21,278	-	21,278
Other assets	459	1,053	579	346	-	3,812	-	6,249
Total assets.....	574,060	407,602	211,012	265,204	71,287	32,489	6,312	1,567,966
LIABILITIES								
Deposits by the CBR....	247,170	-	-	-	-	-	-	247,170
Deposits by credit and other financial institutions.....	183,915	186,784	4,274	5,594	1,058	-	-	381,625
Deposits by customers..	252,942	186,195	198,430	29,769	22,159	-	-	689,495
Debt securities issued...	-	1,146	-	126,159	9,899	-	-	137,204
Deferred tax liability	-	-	-	-	-	190	-	190
Other liabilities.....	965	3,488	1,624	754	-	2,052	-	8,883
Total liabilities	684,992	377,613	204,328	162,276	33,116	2,242	-	1,464,567
Net position	(110,932)	29,989	6,684	102,928	38,171	30,247	6,312	103,399
Cumulative position ...	(110,932)	(80,943)	(74,259)	28,669	66,840	97,087	103,399	

The following table sets forth CBM's consolidated liquidity position as at 31 December 2015.

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
RUB millions								
ASSETS								
Cash and cash equivalents	138,015	-	-	-	-	-	-	138,015
Obligatory reserves with the CBR.....	-	-	-	-	-	5,936	-	5,936
Deposits in credit and other financial institutions.....	-	172,299	6,688	98,309	-	-	-	277,296
Financial instruments at fair value through profit or loss	61,997	6,742	1,381	2,017	-	-	-	72,137

Available-for-sale securities.....	60,108	7,182	14,733	5,143	126	111	-	87,403
Loans to customers.....	71,062	153,022	85,662	173,586	84,071	-	25,663	593,065
Property and equipment	-	-	-	-	-	7,004	-	7,004
Other Assets	716	1,674	879	197	-	23,880	-	27,345
Total assets.....	331,898	340,918	109,342	279,251	84,197	36,931	25,663	1,208,201
LIABILITIES								
Deposits by the CBR	-	4,045	-	-	-	-	-	4,045
Deposits by credit and other financial institutions.....	29,890	44,044	3,862	5,414	1,451	-	-	84,660
Deposits by customers..	139,133	314,897	375,238	43,488	25,937	-	-	898,692
Debt securities issued...	-	1,045	-	112,784	7,326	-	-	121,155
Deferred tax liability	-	-	-	-	-	2,381	-	2,381
Other liabilities.....	1,671	885	399	163	54	1,758	-	4,930
Total liabilities	170,694	364,914	379,498	161,849	34,768	4,139	-	1,115,862
Net position	161,204	(23,996)	(270,156)	117,402	49,429	32,793	25,663	92,338
Cumulative position ...	161,204	137,208	(132,948)	(15,546)	33,883	66,676	92,338	

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The specificity of operational risks is that this type of risk is inherent in all activities of CBM, rather than individual products / processes. CBM is exposed to several types of operational risk:

- *personnel risk* – losses associated with fault, unauthorised or illegal activities of CBM's employees, their inadequate qualification, work overload, poor management, etc.;
- *process risk* – losses associated with mistakes in operational and settlement processes, as well as in respective reporting and pricing;
- *system risk* – losses associated with inadequacy of the CBM's technology and IT systems and poor quality of data management;
- *business environment risk* – losses associated with changes in the CBM's external business environment, such as changes in law, political and economic systems, as well as interference of third parties into the CBM's business operations;
- *legal risk* – losses associated with breaches by CBM of the undertakings and obligations arising from agreements with counterparties, as well as breaches by the counterparties of their respective obligations (save for credit-related arrangements); poor legal management; instability and inadequacy of the Russian legal system and changes in the legal framework regulating CBM's business operations; and
- *compliance risk* - the risk of negative consequences due to non-compliance with the legislation of the Russian Federation, the obligations taken by CBM to shareholders and third parties, internal documents of CBM, standards of self-regulatory organisations (if such standards are mandatory for CBM), and as a result of sanctions and / other measures of influence on the part of the supervisory authorities.

To manage its operational risks, CBM has the Internal Control Service which performs independent control of operational risk management and reports directly to the Chairman of the Management Board. In order to limit operational risk, CBM reflects a set of the following measures aimed at reducing the probability of occurrence of events or circumstances leading to losses resulting from the

implementation of operational risk and (or) reducing (limiting) the amount of such losses in the internal documents:

- procedures for the performance of transactions, the procedure for the separation of powers, accountability for ongoing operations (transactions) and post control, which allows to exclude (limit) the possibility of occurrence of operational risk, and control compliance with established procedures;
- requirements for IT systems and information protection, as well as prospects for the development of these systems;
- insurance procedures, including property insurance (insurance of buildings, other property, including currency valuables and securities, from loss, shortage or damage, including as a result of actions of third parties, employees of the credit organisation, as well as insurance of business risks associated with the risk of losses arising from the implementation of banking risks) and personal insurance (insurance of employees against accidents and damage to health); and
- procedures for the approval of internal regulatory documents that require their mandatory approval with the departments responsible for assessing operational risk.

Thus, procedures established for managing CBM 's operational risk include methods for identifying and assessing the level of accepted operational risk in relation to various areas of activity of a credit institution.

The Internal Control Service collects information about internal and external losses, monitors the state and extent of the operational risks CBM is facing, evaluates risks qualitatively and quantitatively, and identifies the incidence of risks at early stages and responds so as to prevent the risk from reaching levels that are considered substantial for CBM.

CBM's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. CBM gathers data on operational risk occurrences and monitors key risk indicators, and CBM's organisational units carry out self-assessment of risk and subsequently provide operational risk mapping across CBM.

Concentration risk of the credit risk

This is the risk of significant losses that can pose a threat to a credit institution's solvency and ability to continue its business due to its exposure to large counterparty risks, risks in specific sectors, regions, markets, currencies, etc.

Concentration risk management procedures include the following:

- risk identification and measurement procedure;
- list of concentration limits, restricting CBM existing structure of risk-bearing assets, grouped into portfolios by various attributes, and aggregate indicators of CBM's operations. The aim is to limit losses resulting from overconcentration on certain counterparties, groups of counterparties or groups of assets of CBM;
- developing ways to control compliance with such limits, in particular control CBM's portfolios of instruments to identify risk concentrations that are new for it and are not captured by the concentration limit system, and ways to report limit violations to CBM's management bodies and suggest corrective actions.

Concentration Limits

Credit risk is the main risk to which CBM is exposed given the nature of its business and balance-sheet structure. In order to limit its credit risk exposure, CBM has set credit risk limits as to lending volume with respect to its top, top-five and top-ten corporate clients and as to industry concentration of its corporate loan portfolio. The most significant lending limits are:

- No sector of the economy can be represented by more than 25% in the aggregate loan portfolio of corporate loans.
- CBM's industry concentration with respect to gross corporate loan portfolio may not exceed 1500 calculated as per Herfindahl-Hirschman index (H);
- CBM's total lending exposure to the biggest corporate client (individual borrower or group of related borrowers) may not exceed 25% of the CBM total capital in accordance with the CBR's ratio N6;
- CBM's total lending exposure to top-ten corporate borrowers may not exceed 30% on the CBM's gross loan portfolio, including retail loans; and
- CBM's total lending exposure to top-twenty corporate borrowers may not exceed 45% on the CBM's gross loan portfolio, including retail loans.

Reputational risk

The source of this type of risk is CBM's exposure to losses as a result of an outflow of CBM's customers (counterparties) due to a negative public perception of CBM's financial stability, quality of its services or the nature of its activity as a whole. The probability and amount of losses that can be caused by this risk depends on the level of this risk in the Russian banking sector as a whole.

Currently, in the CBM's management's opinion, there are no objective factors that would likely to damage CBM's business reputation. CBM meets all of its obligations on time and in full. CBM's credit history includes large loans from leading credit institutions of the world, syndicated loans and bond issues. CBM also has a strong reputation among retail customers.

CBM makes considerable efforts to promote its image in the eyes of its customers and the public by increasing its information transparency. Reputational risk management is an integral part of the risk management system and is practiced with the direct involvement of CBM's management.

Strategic risk

This is the risk of adverse consequences of mistakes (flaws) in decisions made with regard to CBM's business and development strategy, such as neglect or underestimation of potential threats to its operations, wrong or inadequate choice of prospective business areas where it can gain an edge over its competitors, lack/insufficiency of resources (financial, material, technical, human) and organisational measures (managerial decisions) required to attain its strategic goals.

Strategic risk management procedures include the following elements detailed in CBM's bylaws:

- periodic revaluation of CBM's development strategy;
- planning the development of new lines of business, new products, technologies and services, expansion of existing technologies and services and strengthening of CBM's infrastructure; and

- analysing competition so as to identify strategic risks such as the threat of new competitors in the market, the threat of product substitution or the threat of continuous evolution of strategic risk factors during the lifetime of services provided.

Procedures for Prevention of Money Laundering and Terrorist Financing

CBM's anti-money laundering measures are based on relevant Russian legislation and international requirements for internal control in the area of anti-money laundering and combating financing of terrorism.

CBM's procedures relating to the prevention of money laundering and financing of terrorist activities include "know-your-customer" procedures which require clear identification of clients, verification of their identities and evaluation of the risk that they may be involved in money-laundering activities or terrorist financing; detection of transactions that the Russian anti-money laundering legislation places under compulsory control, as well as suspicious transactions and activities; reporting; record-keeping; confidentiality; and training of personnel. CBM's "know-your-customer" procedures are designed to help recognise suspicious activity in a timely manner, to minimise the risk that CBM will be used as a channel for illegal activities of any kind, to prevent establishment of banking relationships with a client until its true identity is known and to identify unusual or suspicious transactions or transactions inconsistent with the information that CBM has about the client or its regular business activities. See *"Risk Factors – Risks Relating to CBM's Business and Industry – CBM is a highly regulated entity"*.

CBM uses an automated monitoring system that identifies client transactions that are subject to mandatory control or appear suspicious in nature based on a risk-oriented approach. CBM's risk-oriented monitoring includes the following, all of which are in accordance with Financial Action Task Force on Money Laundering (**FATF**) requirements:

- paying particular attention when establishing correspondent relationships with, and performing transactions with, foreign banks incorporated in jurisdictions offering beneficial tax regimes and/or requiring no disclosure of information on financial transactions (offshore jurisdictions);
- not having accounts with banks incorporated in jurisdictions which do not comply with the recommendations of FATF;
- not establishing correspondent relationships with shell banks, which are incorporated in a jurisdiction in which they have no physical presence or in a jurisdiction with no permanent regulatory authorities; and
- taking measures to prevent the establishment of correspondent relationships with banks that are known to have correspondent relationships with banks incorporated in jurisdictions with no permanent regulatory authorities.

CBM's Anti-Money Laundering Officer is responsible for CBM's anti-money laundering internal controls and reports directly to the Chairman of the Management Board. The Anti-Money Laundering Officer is the head of CBM's Financial Monitoring and Foreign Currency Control Directorate, which includes the Foreign Currency Control Department (consisting of the Ongoing Foreign Currency Control Unit, the Foreign Currency Transactions Reporting and Record Unit and the Foreign Currency Control Documents Expertise Unit) and the Financial Monitoring Department (consisting of the Compulsory Control Unit, the Money Laundering Risk Appraisal Unit and the Methodology and Staff Training Group).

All CBM's employees are required to attend specialized training and examination on the issues regarding prevention of money laundering. Annual inspection of this activity area is a compulsory element of CBM's internal audit procedures.

MANAGEMENT

Overview

The governance of CBM consists of various levels and sub-levels, each responsible for different aspects of CBM's overall activities. The following sets out the management structure of CBM and its corporate governance reporting lines.

The highest level of governance is conducted through the General Shareholders' Meeting, the ultimate decision-making body. The General Shareholders' Meeting elects the Supervisory Board, which is responsible for the general governance of CBM, including the determination of strategy, coordination and general supervision thereof. The Supervisory Board elects the Management Board, which is the collegial executive body of CBM, and appoints the Chairman of the Management Board, which is the sole executive body of CBM. The Chairman of the Management Board and the Management Board as a whole are responsible for the day-to-day operations of CBM.

General Shareholders' Meeting

There are annual general meetings and extraordinary general meetings of the shareholders. The annual General Shareholders' Meeting is convened no earlier than two months and no later than six months after the end of CBM's financial year.

The powers of the General Shareholders' meeting are set forth in the Joint Stock Companies Law (the "**JSC Law**") and the CBM's Charter. The procedure for convening, preparation and conducting of the General Meeting is stipulated in the CBM's Regulation for the General Shareholders' Meeting.

Shareholders have the power to decide on the following matters, among others:

- amendments to CBM's charter (with certain exception provided for by Russian law) and approval of the restated charter;
- reorganisation and liquidation of CBM, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Supervisory Board, election of its members and early termination of their powers;
- determination of the amount, par value and type of authorised shares, as well as the rights attached to those shares;
- increases in the instances provided by CBM's charter and reductions of CBM's charter capital;
- election of the Statutory Audit Panel and appointment of CBM's external auditor;
- declaration (payment) of dividends;
- approval of CBM's annual statutory accounts and reports;
- approval of CBM's participation in financial groups and associations; and
- certain other matters provided for by CBM's charter and law.

Decisions of the General Shareholders' Meeting are generally adopted by a simple majority of voting shareholders who are present at the meeting, unless the JSC Law or the CBM's Charter requires qualified majority or set additional rules. Pursuant to the JSC Law and the CBM's Charter, motions such as amendment of the Charter, increase of the share capital in most cases, placement of securities

convertible into shares, reorganisation and liquidation must be approved by a three quarters majority vote of the voting shares participating in the General Shareholders' Meeting of CBM.

Supervisory Board

The Supervisory Board is responsible for general governance matters, with the exception of those matters that are designated by law and by CBM's Charter as being the exclusive responsibility of the General Shareholders' Meeting. The Supervisory Board makes its decisions by simple majority, so long as a quorum of at least half of the elected members of the Supervisory Board is present, unless otherwise required by law or CBM's Charter. The Chairman of the Supervisory Board has a casting vote. The Supervisory Board meets on a regular basis, typically several times a month. CBM's shareholders elect members of the Supervisory Board until the next annual shareholders' meeting, and such members may be re-elected an unlimited number of times. There is no fixed term of office for Supervisory Board members. The Supervisory Board currently has 10 members. The last election of the Supervisory Board took place on 4 November 2016.

Pursuant to the terms of the shareholders agreement entered into among Concern Rossium, Wellcreek Corporation, Roman Avdeev, EBRD, IFC and RBOF Holding Company I Ltd dated 20 July 2012, as amended (the "**Shareholders' Agreement**"), EBRD is entitled to nominate one member to the Supervisory Board and either the IFC or the IFC Russian Bank Capitalization Fund is entitled to nominate one member to the Supervisory Board. See "*Shareholders*".

The name, position and certain other information for each member of the Supervisory Board are set forth below.

<i>Name</i>	<i>Year of Appointment to Supervisory Board</i>	<i>Position</i>
Roman Avdeev	2008	Non-executive Director, Controlling shareholder
Vladimir Chubar	2010	Executive Director, Chairman of the Management Board
Andrew Gazitua	2012	Senior Independent Non-executive Director
Thomas Grasse	2014	Non-executive Director, Nominee of EBRD
Andreas Klinge	2016	Independent Non-executive Director
Mikhail Kuznetsov	2013	Non-executive Director, Nominee of IFC and RBOF Holding Company I Ltd
Genadi Lewinski	2016	Non-executive Director
Marina Nastashkina	2016	Non-executive Director
William Owens	2012	Chairman, Independent Non-executive Director
Ilkka Salonen	2016	Independent Non-executive Director

Roman Avdeev (born 1967) has served as a member of the Supervisory Board since October 2008. Mr. Avdeev was the sole beneficial owner of CBM from June 1994 to August 2012 and is now the majority owner of CBM, holding 56.8% of CBM's shares. He was Chairman of CBM's Supervisory Board from August 1999 to January 2008, Chairman of the Management Board from January 2008 to November 2008 and President of CBM from November 2008 to September 2010. Prior to this, he held positions as General Director of Rossium Concern, where he is currently on the Board of Directors. Mr. Avdeev also serves as President of LLC "MCB Capital" ("**MCB Capital**") and as a Board of Directors member of Joint-Stock Company "Non-state Pension Fund Soglasie", Joint-Stock Company "Non-State Pension Fund of Defence Industrial Complex CPI" and Savings and Loans Services Bank, LLC. Mr. Avdeev also has other non-bank assets, apart from his shares in CBM, which are mainly represented by commercial real estate. Mr. Avdeev graduated from Lipetsk State Technical University (Russia) with a qualification as a design engineer and an engineering science degree.

Vladimir Chubar (born 1980) has served as a member of the Supervisory Board since October 2010. Since February 2012, he also holds the position of Chairman of the Management Board of CBM. Mr. Chubar has been with CBM since 2004, and has been a member of the Management Board since 2008. From January 2010 to February 2012, Mr. Chubar served as First Deputy Chairman of the Management Board and was responsible for CBM's Financial Division, Treasury, International Business and Financial Institutions Division and IT Department. Mr. Chubar joined CBM as a Manager in the Accounting Unit, progressing to become the Head of the Accounting Unit, Head of Financial Department, Head of Financial Division and Deputy Chairman of the Management Board. Mr. Chubar graduated as an economist from the Financial University under the government of the Russian Federation. Currently Mr. Chubar also serves as a Member of the Board of Directors of Rossium Concern, LLC and a Chairman of the Board of Directors of Savings and Loans Services Bank, LLC.

Andrew Gazitua (born 1962) has served as a member of the Supervisory Board since April 2012. Mr. Gazitua started his investment banking career in 1989 with Merrill Lynch & Co in New York, transferring to London in 1992 to work in the financial institutions group. In 1999, Mr. Gazitua joined Donaldson, Lufkin & Jenrette International (subsequently acquired by Credit Suisse) as a Senior Vice President in investment banking. After leaving Credit Suisse, Mr. Gazitua joined Putnam Lovell as a Managing Director in 2003 and subsequently rejoined Merrill Lynch & Co. in 2004 as COO for the European operations of investment banking and capital markets. In 2007, he assumed responsibilities for origination for Central and Eastern Europe, Middle East and Africa (CEEMEA) and became COO for Global Origination. From 2009 to 2011, Mr. Gazitua was Head of CEEMEA Corporate and Investment Banking at Bank of America Merrill Lynch. At present he serves on the boards of Web Financial Group, S.A., Civitas Partners Holdings Limited, Awad Capital Ltd. and Walbrook Capital Markets Limited. In addition, Mr. Gazitua is a Chairman of the Board of Directors of one of the oldest banks in Latvia, AS Expobank.

Thomas Grasse (born 1955) has served as a member of the Supervisory Board since March 2014. In 1977 he earned his Bachelor in Banking from Frankfurt School of Finance and Management. He gained broad experience in commercial and investment banking while working for HypoVereinsbank, Munich (now UniCredit) from 1974 to 2007 in a number of senior executive managerial positions in Germany, Luxembourg and Poland. From 2007 to 2009, he served as CFO and COO of UniCredit Market & Investment Banking Poland, based in Warsaw. While at HypoVereinsbank he gained significant experience in Corporate Development and strategic M&A and was responsible for numerous corporate transactions with a focus on financial institutions in Germany, Austria, the UK, Russia and the CIS, as well as managing strategic partnerships and ownership in various investments. His experience as a member of the Board of Directors in Russia includes Banca Intesa Russia, International Moscow Bank (now UniCredit) and a leading Russian packaging company. Since 2009, Mr. Grasse has served as a member of the Board of Directors of various banks in Russia, Central Asia and the EU as an independent director on behalf of international financial institutions and institutional investors. Currently Mr. Grasse is a member of the Advisory board of Spectra-Group AG (Zug/Switzerland and Moscow/Russian Federation); he also serves on the board of Banca Transilvania S.A. (Cluj-Napoca, Romania). Thomas Grasse was nominated to CBM's Supervisory Board by EBRD.

Andreas Klinge (born 1964) has served as a member of the Supervisory Board since November 2016. He holds Master of Science in physics and philosophy from Technische Universität in Berlin and Master of Business Administration from Rotterdam School of Management. His professional career started as a Researcher in Festkörper - Laser-Institut in Germany. From 1993 to 1998, he served as Senior Associate in Lazard (Frankfurt, Germany). He served as Senior Vice President of Investment Banking, Financial institutions at JP Morgan in London from 1998 to 2005. From 2005 to 2010, Mr. Klinge was Head of Strategic Group Development in Erste Group Bank AG. At various times from 2005 to 2013 Mr. Klinge served on Boards of Directors of Slovenska sporitelna, a.s. (Bratislava, Slovak Republic), Erste & Steiermärkische Bank d.d. (Rijeka, Croatia), Erste Bank AD NOVI SAD

(Belgrade, Serbia), Public Company “Erste Bank” (Kyiv, Ukraine), KONTAKT, Art Collection (Vienna, Austria), Erste Bank Hungary Nyrt (Budapest, Hungary), Ceska sporitelna, a.s. (Prague, Czech Republic), good.bee Holding GmbH (Vienna, Austria), OJSC Commercial Bank “Center Invest” (Rostov, Russia). From 2010 to 2013, he served as Deputy Chief Executive Officer, Financial Director, Head of Treasury and Corporate Banking in PC Erste Bank (Kiev, Ukraine).

Currently Mr. Klingen is a member of Boards of Komercijalna Banka a.d. (Beograd, Serbia), Nova Ljubljanska banka d.d. (Ljubljana, Slovenia) and Kyrgyz Investment and Credit Bank (Bishkek, Kyrgyz Republic). He is also an Associate Professor at bbw Hochschule, Berlin, Germany.

Mikhail Kuznetsov (born 1979) has served as a member of the Supervisory Board since June 2013. Mr. Kuznetsov has held managerial positions in Aviacor, Lukoil-Volga, Promsviaz Capital and IFC. He also has experience on the Board of Directors of such companies as OMC, SG-TRANS, Volzhanka and IDGC. Currently, Mr. Kuznetsov serves as an Independent Director on the board of OJSC EHO (Roskosmos); he is a Chairman of the Audit Panel of OJSC Sovkomflot and serves on the boards of LLP Eastcomtrans, OJSC Research and Production Association Angstrom, “National Engineering Center for Energy” (joint-stock company) and “Production Association “Crystal” (joint-stock company). He is CEO and managing partner of Corporate Development Advisers, General Director of LLC “Topcompetence”, and CEO of the Association of Corporate Directors and Managers. Mr. Kuznetsov (Ph.D. in Economics) graduated from Samara State Economic University with a degree in management in 2001, and was certified in finance and marketing at Loyola Marymount University (USA). He has obtained the Institute of Directors (U.K.) diploma in Company Direction, an Executive MBA diploma from the IE Business School (Madrid) and the FSFM broker, dealer and asset manager certificate. He has also taken a certificate course in Schulich School of Business, York University (Canada) on Corporate Governance. Mr. Kuznetsov was nominated to the Supervisory Board by the IFC and RBOF Holding Company I Ltd.

Genadi Lewinski (born 1976) has served as a member of the Supervisory Board since June 2016. He was educated at the University of Bielefeld. Genadi Lewinski is a certified attorney at law, member of the German Attorney Association (DAV) and founder of the Rechtsanwaltskanzlei Lewinski law firm. Mr. Lewinski joined CBM in November 2012 as member of the Supervisory Board. Mr. Lewinsky also served as a member of Boards of Directors of pharmaceutical companies PJSC “VEROFARM” and PJSC “Pharmacy Chain 36,6”.

Marina Nastashkina (born 1970) has served as a member of the Supervisory Board since June 2016 and served as the Deputy Chairman of the Management Board of CBM until September 2014. Mrs. Nastashkina began working with CBM in 1998. From April 2011 to February 2012, she served as First Vice President of CBM. From October 2015 to June 2016 she was a Chairperson of the Board of Directors at ROSSIUM Concern, LLC. Mrs. Nastashkina is currently Vice President of MCB Capital, LLC, Chairperson of the Board of Directors at JSC “Ingrad” and member of the Board of Directors of PJSC OPIN. Mrs. Nastashkina graduated from Moscow Chemical Engineering Institute named after Mendeleev.

William Owens (born 1950) has served as a member of the Supervisory Board since November 2012 and as Chairman since 16 April 2013. Mr. Owens began his career as a consultant at Touche Ross & Co. (now Deloitte) and later worked in the petroleum industry. From 1995 to 1999, he held the office of Colorado State Treasurer, and then served two terms as Governor of Colorado from 1999 to 2007. Subsequently, between 2007 and 2012, Mr. Owens served as an independent director of FESCO, a Russian shipping, logistics and port company which is listed on the MOEX. Mr. Owens also served as Chair of FESCO’s Strategy Committee. He was also Managing Director of Renew Strategies, a Colorado-based water and land development company, and Member of the Board of Directors of Key Energy Services (NYSE). William Owens is presently Senior Director of Greenberg Traurig, and serves on the boards of Cloud Peak Energy (NYSE), Bill Barrett Corporation (NYSE) and Federal Signal Corporation (NYSE). Mr. Owens received a master’s degree in public affairs from the LBJ

School at the University of Texas (USA) and a Bachelor of Science degree from Stephen F. Austin State University (USA).

Ilkka Salonen (born 1955) has served as a member of the Supervisory Board since November 2016. He graduated from Helsinki University in 1981 with a Master of Political Science degree (major in Economics). Mr. Salonen has over 30 years of experience in the banking sector. In 1981-1994, he served in various positions in Kansallis-Osake-Pankki (rose from an Economist to a Vice President in charge of East Europe Desk in Country Risk and Financial Institutions Division). In 1994-1997, he served as Deputy President at International Moscow Bank (now UniCredit Bank). In 1997-1998, Mr. Salonen served as First Vice President of the Merita Bank Ltd. (now Nordea Bank). In 1998, he returned to International Moscow Bank (now UniCredit Bank) as President of the Board of the Management. In 2007, he joined Renaissance Investment Management Group as President and Deputy CEO. In 2008-2009, he was Deputy Chairman of the Board of Management in charge of the international businesses at Sberbank. In 2012-2015, he was Chairman of the Management Board of Bank Uralsib. Currently Mr. Salonen serves on the boards of Corims Oy (Finland), Sysmän Kirjakylä Oy (Finland); he is also Chairman of Garmoshka Oy (Finland), partner of Septem Partners Oy (Finland), Deputy Board member of Fennovoima Oy (Finland), Member of the Advisory Board of Essedel (Russia) and acting CEO of East Office of Finnish Industries (Finland).

The business address of each member of the Supervisory Board is CBM's registered office. No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board owes to CBM and such member's private interests or other duties.

Management Board

The Management Board is CBM's collegial executive body, which is elected by the Supervisory Board. The Management Board meets as often as is considered necessary, typically once a week, and makes its decisions by simple majority, provided that a quorum of at least half of the elected members of the Management Board is present. The Chairman of the Management Board has a casting vote. The Management Board is responsible for CBM's day-to-day management and administration. The Chairman of the Management Board represents CBM and acts as its chief executive officer. The Management Board has several committees that help it carry out its management functions.

As at the date of this Prospectus, the Management Board consists of eight members. The name, position and certain other information for each member of the Management Board are set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions. There are no fixed terms of office for Management Board members.

<i>Name</i>	<i>Year of Appointment to Management Board</i>	<i>Position</i>
Vladimir Chubar	2008	Chairman
Dmitry Eremin	2008	First Deputy Chairman
Darya Galkina	2010	Deputy Chairperson
Alexey Kosyakov	2013	Deputy Chairman
Andrey Kryukov	2016	Deputy Chairman
Svetlana Sass	2008	Chief Accountant
Alexey Stepanenko	2016	Deputy Chairman
Elena Shved	2016	Head of Financial Division
Yury Ubeev	2012	Senior Vice President
Anton Virichev	2016	Head of Risk Management Directorate

Vladimir Chubar (born 1980) has served as Chairman of the Management Board since February 2012. See "– Supervisory Board".

Dmitry Eremin (born 1978) has served as a member of the Management Board since April 2008. Mr. Eremin joined CBM in 2002 and is currently First Deputy Chairman of the Management Board with

responsibility for the corporate and retail businesses of CBM. Prior to this, he held various positions at CBM, including Head of Client Service Division, Head of Branch, Head of Sales Division and Client Service Manager at a branch. Previously, Mr. Eremin worked at Commercial Bank “Raschetny Dom”. Mr. Eremin holds degrees from the Academy of the Federal Security Service of the Russian Federation and the Moscow Institute of Economics and Finance.

Darya Galkina (born 1981) has served as a member of the Management Board since September 2010. During her career at CBM, Mrs. Galkina has held the positions of Principal Legal Advisor, Deputy Head of Lending Legal Support Unit, Head of Lending Legal Support Unit, Head of Business Legal Support Unit and Head of Lending Support Department. Since August 2010, Mrs. Galkina has served as the Director of Legal Division. Before joining CBM, Ms. Galkina held the positions of Legal Advisor at LLC Audit Firm “Troyka-Audit” and Principal Legal Advisor at Commercial Bank “Integral”. Mrs. Galkina graduated from the Moscow Academy of Economics and Law in 2003.

Alexey Kosyakov (born 1983) has served as a member of the Management Board since October 2013. Mr. Kosyakov has been working in banking sector since 2005. Prior to joining CBM, he worked at Russian Standard Bank, International Moscow Bank, Swedbank and Bank of Moscow. Mr. Kosyakov joined CBM in April 2011 as Head of Consumer Lending Department. He was appointed Director of Retail Lending Division in July 2011 and Head of Retail Business Directorate in February 2012. Mr. Kosyakov supervises the retail business of CBM while overseeing further achievement of strategic objectives, such as further improving the efficiency of CBM’s branch network and developing remote client service channels. Mr. Kosyakov has degrees from the Moscow Engineering and Physics Institute and Plekhanov Russian Academy of Economics.

Andrey Kryukov (born 1986) has served as a member of the Management Board since November 2016. Mr. Kryukov joined CBM in 2011 as Head of Investment Transactions Legal Support Unit. He was appointed as Head of Investment Projects and Corporate Relations Legal Support Department in May 2012 and Legal Division Director in July 2012. In 2013, Mr. Kryukov became First Vice President of MCB Capital. Mr. Kryukov holds a degree from the Academy of Economic Security (Academy of Tax Police).

Svetlana Sass (born 1965) has served as a member of the Management Board since November 2008. She also holds a position of the Chief Accountant of CBM. Mrs. Sass was previously Advisor to the Chairman of the Management Board. Prior to joining CBM, Mrs. Sass worked at the Commercial Bank “Holding Credit” as Chief Accountant and Financial Director, as well as at Russian Universal Investment Bank, Impexbank and Russian Credit. Mrs. Sass has a degree from Moscow State University of Economics, Statistics and Informatics.

Alexey Stepanenko (born 1981) has served as a member of the Management Board since November 2016. Mr. Stepanenko’s prior experience includes being Deputy Head of Market Research Unit at OJSC IMPEXBANK and LLC IG East Kommerts (formerly – LLC IC East Capital) and Head of Market Research Unit at LLC IG East Kommerts and OJSC Russian Investors. Mr. Stepanenko joined CBM in February 2009 as Head of Sectoral Risk Monitoring Unit and subsequently was successively appointed as Head of Financial and Sectoral Risks Analysis Unit, Head of Financial Risk Department, Deputy Director of Risk Division and Director of Analytical Division. In 2012, Mr. Stepanenko was promoted to Vice President. Mr. Stepanenko was appointed as First Vice President of MCB Capital in 2013. Mr. Stepanenko has a degree from the Financial University under the Government of the Russian Federation.

Elena Shved (born 1987) has been appointed as a member of the Management Board in March 2016. Mrs. Shved joined CBM in 2011 as a senior specialist of the Bank Risks Analysis Unit and since then held various positions within CBM. In 2013, she was appointed as Head of Finance Department of CBM. Prior to CBM, Mrs. Shved acted as a risk management specialist at Alta-Bank. Mrs. Shved graduated from Moscow Institute of Physics and Technology.

Yury Ubeev (born 1974) has served as a member of the Management Board since October 2012. Mr. Ubeev's prior experience includes being a member of the management boards of various Russian banks. Mr. Ubeev joined CBM in August 2011 as Vice President of CBM and in October 2012 he was appointed a Deputy Chairman of the Management Board. Mr. Ubeev supervises CBM's international and interbank businesses and operations in the financial markets. He has oversight over CBM's open-market debt programmes and projects intended to enhance CBM's performance in financial markets and expand cooperation with Russian and foreign financial institutions, as well as its treasury activities. Mr. Ubeev has a degree in Management from East Siberia State University of Technology and Management.

Anton Virichev (born 1978) has served as a member of the Management Board since February 2016. Mr. Virichev began working with CBM in 2009. In 2009-2011, he held various managerial positions within the CBM's risk management department. In 2011-2015, Mr. Virichev acted as manager at the Major Corporates Department at Sberbank and as Head of Corporate Development Division at Nota-Bank. In 2015, Mr. Virichev re-joined CBM as Head of Risk Management Directorate. Mr. Virichev has degree in Economics from the Financial Institute to the Government of the Russian Federation.

The business address of each member of the Management Board is CBM's registered office. No actual or potential conflicts of interest exist between the duties that any member of the Management Board owes to CBM and such member's private interests or other duties.

Management Company for Roman Avdeev

In March 2013, Roman Avdeev, CBM's controlling shareholder and a member of the Supervisory Board, established MCB Capital, a management company incorporated in Russia. Mr. Avdeev is the sole beneficial owner of MCB Capital. The main task of MCB Capital is to carry out management functions in respect of businesses owned by Mr. Avdeev. MCB Capital is the sole executive body of Concern Rossum, which owns 56.8% of shares in CBM, and therefore it participates in determining the development strategy of CBM on behalf of Mr. Avdeev in his capacity as a majority shareholder of CBM.

Corporate Governance

CBM complies with the Russian corporate governance regime. Corporate governance at CBM has been carried out in accordance with the requirements of the JSC Law, other rules governing the operation of joint-stock companies and credit organisations in the Russian Federation, CBM's Charter and other internal documents of CBM. CBM's corporate governance practices satisfy or surpass the corporate governance requirements currently prescribed in the Russian Federation, and to a certain extent comply with concepts of corporate governance that are prevalent in Western Europe and the United States.

As a legal entity, whose shares and debt securities are listed on the Moscow Exchange, CBM is required to comply with a number of corporate governance requirements applicable to issuers of securities that are traded on the Russian stock exchange.

As part of its corporate governance regime, CBM follows its own Corporate Governance Code. The current version of the Corporate Governance Code was approved by CBM's Supervisory Board in 2015.

CBM's Corporate Governance Code sets out CBM's main corporate conduct principles, promoting better performance of the management bodies of CBM. It was based on a balanced approach to the interests of CBM's shareholders, management bodies and other interested parties, with a view to enhance reliability and client satisfaction, promote business culture, improve control over CBM's performance and to ensure compliance with highest ethical standards. The Corporate Governance Code seeks to improve and systemise approaches to client satisfaction by providing high quality

banking services and reliability in accordance with CBM's plan to evolve as a modern financial institution. To keep client service in line with high financial, business and technological standards, CBM voluntarily undertakes to follow the principles and rules of corporate governance set out in the Corporate Governance Code. These principles and rules correspond to international best practices of corporate conduct and represent a high level of governance and performance control, business culture and compliance with high ethical standards. As corporate governance practice evolves in Russia and abroad, CBM will seek to further improve its corporate governance rules and principles and achieve a higher level of compliance with the principles set out in the Corporate Governance Code.

Among other things, CBM has implemented the following corporate governance features:

Independent Directors

According to the Regulation on the Supervisory Board of CBM and the Corporate Governance Code, independent directors of CBM are those Supervisory Board members who have no direct or indirect relationship with CBM other than membership on the Supervisory Board, and who, among others:

- are not, and have not been in the past five years, employed by CBM or its affiliates, where "affiliates" means, with respect to any person, any individuals or entities directly or indirectly controlling, controlled by or under common control with, that person and "control" means the power of an individual or entity, whether independently or jointly with other individuals or entities, directly or indirectly (through third parties), to influence activities of entities and/or individuals (including to determine the decision of the management or business policies of an entity through the direct or indirect (i.e. through third parties) ownership of more than 20% of its capital and/or by contract made between that individual or entity and the other individual(s) and/or entity(ies));
- are not affiliated with any non-profit organisation that receives significant funding from CBM or its affiliates;
- do not receive and have not received in the past five years, any additional payments from CBM or its affiliates other than their remuneration and reimbursement of expenses related to their service, as Supervisory Board members (such remuneration and reimbursement may not constitute a significant portion (share) of any such independent director's total income for the calendar year in which such remuneration and reimbursement were paid);
- do not participate in any employee pension programme or share option programme of CBM or any of its affiliates;
- are not employed as the sole executive body or a member of the collective executive body of another entity where any of the members of CBM's collective executive body serve on that entity's board of directors;
- are not, and have not been at any time during the past five years, employed by or affiliated with an auditor of CBM or any of its affiliates;
- do not hold a significant (more than 2%) portion of the outstanding shares in CBM or shares/interests in the capital of any of its affiliates, and are not members of a management body of any entity, or general partners of any general partnership, or members of a business partnership, or partners (members) of an entity incorporated under foreign law in a legal form similar to that of general partnership or business partnership, and cannot give binding instructions to or otherwise direct the activities of an entity, which holds any significant (more than 2%) portion of the outstanding shares in CBM or shares/interests in the capital of any of its affiliates;

- are not members of the immediate family, guardians or trustee of any individual who would not meet any of the tests set out above, or assistants to any such individual who is of age, legally capable and placed under guardianship, or executors of the estate of any such individual who has been declared missing, or administrators or trustees of the estate of any such individual who is or has been declared deceased; and
- have not served on the Supervisory Board for more than seven years.

The foregoing independence criteria exceed the requirements of the JSC Law and CBR guidance and are based on the requirements of CBM's shareholders, the EBRD and IFC. The Moscow Exchange Listing Rules also set out a new list of independence criteria for directors, with which CBM complies as well. CBM's Supervisory Board includes four independent directors. These directors are Andrew Gazitua, William Owens, Andreas Klingen and Ilkka Salonen.

Supervisory Board Committees

According to the charter and other internal regulations of CBM, the Supervisory Board is responsible for creating specific committees including the strategic and finance committee, the audit committee (which, among other things, supervises CBM's banking risk management), the corporate governance, nominations and compensation committee, the capital markets committee and other committees. Such committees are formed for pre-examination of the most important matters pertaining to the activities of CBM. Descriptions of such currently existing committees of the Supervisory Board are provided below. Each committee has at least two independent directors.

Audit and Risk Committee

The Audit and Risk Committee of the Supervisory Board of CBM analyses the efficiency of CBM's internal control and risk management procedures and provides advice on their improvement to the Supervisory Board when making decisions with respect thereto. The Audit and Risk Committee members are elected from the Supervisory Board members who are not also members of CBM's executive bodies. Currently its members are Ilkka Salonen, Thomas Grasse and Andreas Klingen. The committee is headed by an independent director. The main purpose of the Audit and Risk Committee is to assist the Supervisory Board in controlling CBM's operations and ensuring effectiveness of CBM's internal control and risk management systems. It aims to achieve this purpose by advising of the Supervisory Board on the following matters:

- selecting an independent auditor to undertake the annual independent external audit of CBM's financial statements;
- appraising the quality of services provided by the independent auditor and its compliance with independence requirements;
- efficient internal control and risk management procedures;
- prioritising CBM's activities within the acceptable level of risk;
- supervision of CBM's financial and business performance; and
- compliance with applicable laws and regulatory requirements.

The Audit and Risk Committee's functions also include maintaining the Supervisory Board's control over activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence, supervision over the reliability and efficiency of CBM's risk management and internal control system, control over measures taken to ensure CBM's financial statements are complete, accurate and true, implementing and promoting a culture of risk management within CBM, ensuring independence and fairness of internal and external audit functions, controlling

performance of, and measures taken by CBM's executive management under, the system alerting of potential malfeasance by CBM's staff (including abuse of insider or confidential information) or by third parties, and of other irregularities in its operations.

Strategy and Capital Markets Committee

The Strategy and Capital Markets Committee of the Supervisory Board was established in August 2013 out of Capital Markets Committee and Strategic and Finance Committee of the Supervisory Board. The committee consists of seven members. The committee is headed by an independent director. Currently the committee consists of Andrew Gazitua, Roman Avdeev, Vladimir Chubar, Thomas Grasse, Andreas Klingen, William Owens and Ilkka Salonen. The Strategy and Capital Markets Committee was formed to advise the Supervisory Board on CBM's international capital market funding strategy, optimisation of internal processes with respect to capital market activities and building an internal interaction model in connection with international capital market funding, and on any material investor relation issues; to ensure the adoption of resolutions by the Supervisory Board in relation to setting CBM's strategic goals, selecting its priority lines of business, making recommendations on CBM's dividend policy and appraising CBM's long-term performance. The Strategy and Capital Markets Committee also advises the Supervisory Board on adjusting CBM's existing development strategy with a view to enhance CBM's performance in consideration of the domestic and foreign market trends, performance results of CBM and its competitors and other factors. Additionally, the committee assists the Supervisory Board in addressing any matters reserved to it.

Compensation, Corporate Governance and Nominations Committee

The Compensation, Corporate Governance and Nominations Committee of the Supervisory Board was first established in August 2012. The committee consists of three Supervisory Board members. The committee is headed by an independent director. Currently the committee consists of William Owens, Andrew Gazitua and Mikhail Kuznetsov. The Compensation, Corporate Governance and Nominations Committee was formed to direct the HR policy for recruiting highly qualified specialists to the Supervisory Board, Management Board and for the office of the Chairman of the Management Board. The committee is also responsible for formulating remuneration and compensation principles and the related criteria, developing a transparent motivation system and advising on the creation and implementation of effective corporate governance models and solutions.

Corporate Secretary

According to the bylaw on the Corporate Secretary updated by CBM in January 2016, the Corporate Secretary's role is to promote efficiency of CBM's management in the interest of the shareholders, promote CBM's transparency and investment appeal and support the growth of its capitalisation and profitability.

Code of Corporate Ethics

On 12 November 2013 CBM also adopted a Code of Corporate Ethics (revised from a previous Code of Corporate Ethics adopted in November 2012), which sets out the standards of CBM's activities and employees conduct with the focus on maintaining ethical standards, quality of service provided to customers, increasing CBM's profitability, financial stability and efficiency. The objectives of the Code of Corporate Ethics include defining CBM's mission and corporate values; ensuring CBM's employees understand their personal responsibility to the CBM's customers, business partners, shareholders and their colleagues for executing their official duties and performing their functions; and setting forth the fundamental principles of CBM's relationships with customers, business partners, state and municipal authorities, competitors and CBM's employees, protecting interests of CBM's shareholders, customers, business partners and employees. The Code of Corporate Ethics applies to all employees of CBM. Employees are required to act in accordance with the Code of Corporate Ethics and avoid situations where their personal interest conflict with CBM's interest. CBM views the

adoption of the Code of Corporate Ethics as an important development in continuing to improve the corporate governance of CBM. The Code of Corporate Ethics also aims to assist with the integration of new employees into CBM's corporate culture.

Remuneration

In the years ended 31 December 2016, 2015 and 2014, aggregate remuneration paid by CBM to the members of its Supervisory Board and Management Board was RUB179.5 million, RUB161.6 million and RUB280.6 million, respectively.

Members of the Supervisory Board are remunerated according to the Regulation on remunerations and compensations payable to members of the Supervisory Board (approved by the extraordinary General Shareholders' Meeting on 11 September 2015). The members of CBM's Management Board enter into employment contracts with CBM, which set forth their remuneration divided into non-performance related and performance-related components.

Policy

In March 2016 the Supervisory Board approved the new remuneration policy for the Management Board members and the "risk-takers" of CBM in line with Instruction No. 154-I of the CBR.

Litigation Statement Concerning Management

For the previous five years, none of the members of the Supervisory Board or the Management Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board or the Management Board owes to CBM and such member's private interests or other duties.

SHAREHOLDERS

General

As at 31 December 2016, CBM's share capital amounted to RUB23,879,709,866 and was comprised of ordinary shares each with a nominal value of RUB1.00. As at the date of this Prospectus, CBM has authorised but unissued ordinary shares with an aggregate nominal value of RUB12,396,448,142.

In October 2016, CBM's Supervisory Board approved the increase of share capital by the issue of an additional 3,200,000,000 ordinary shares with a nominal value of RUB1 each through an open subscription. Following registration of the issue with the CBR, CBM may place the shares within one year from the date of such registration at any time, subject to market conditions. The existing shareholders have pre-emptive right to subscribe for the newly-issued shares during the placement process.

The table below sets forth information regarding CBM's shareholders.

	As at 31 December 2016
	Percentage (%)
Concern Rossium ⁽¹⁾	56.83
RegionFinanceResurs, JSC	8.19
LLC IC Algoritm.....	5.39
European Bank for Reconstruction and Development.....	4.54
LLC Savings Management	3.86
RBOF Holding Company I Ltd. ⁽²⁾	2.68
JSC EG Capital Partners	1.99
International Finance Corporation ⁽²⁾	1.69
PJSC Saint-Petersburg Bank	1.53
JSC EFG Assets Management	1.34
Powerboom Investments Limited	1.32
PJSC IC Rosgosstrakh.....	1.32
Other	10.64
Total	100.00

Notes:

- (1) Concern Rossium is owned by Roman Avdeev. Share capital in Concern Rossium is held by (i) Roman Avdeev (43.544%), (ii) MCB Capital (37.574%), (iii) ZENOCHA HOLDINGS CO. LIMITED (18.882%).
- (2) RBOF Holding Company I Ltd. is a wholly owned subsidiary of IFC Russian Bank Capitalization Fund, LP, which forms a group of companies with the IFC. IFC Russian Bank Capitalization Fund, LP, is managed by IFC Asset Management Company LLC, a wholly owned subsidiary of IFC, for the benefit of IFC, Vnesheconombank and the Russian Government, each of which contributed to the capital of the fund.

Rights of CBM's Shareholders

Pursuant to CBM's Charter and Russian legislation, CBM's shareholders have the following rights: to participate in the General Shareholders' Meeting of CBM and vote on all matters on its agenda; to receive dividends; to elect members to the Supervisory Board; to receive an amount of CBM's assets upon its liquidation proportionate to its level of shareholding remaining after satisfaction of claims of CBM's creditors; to have unrestricted access to certain documents of CBM listed in Russian legislation; and other rights envisaged by Russian legislation and CBM's Charter. Depending on their level of shareholding, groups of shareholders may have additional rights. However, none of CBM's shareholders have voting rights under CBM's Charter or Russian legislation that differ from any other holder of ordinary shares. CBM is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of CBM.

Shareholders' Agreement

Concern Rossium, Wellcreek Corporation, Roman Avdeev, EBRD, IFC and RBOF Holding Company I Ltd entered into a shareholders' agreement (the "**Shareholders' Agreement**") dated 20 July 2012, as amended, in order to set forth the understanding of the parties with regard to their ownership in, and the governance of, CBM. CBM is not a party to the Shareholders' Agreement.

The Shareholders' Agreement contains, among other things, provisions relating to appointment of the members of the Supervisory Board, the conduct of the Supervisory Board and shareholders meetings and "reserved matters" which include those decisions of the Supervisory Board or the shareholders requiring an affirmative vote of each of EBRD, IFC and RBOF Holding Company I Ltd. or each director appointed by them. See "*Management – Supervisory Board*".

Pursuant to the Shareholders' Agreement, Mr. Avdeev has agreed not to participate in other banks or lending institutions in Russia without the consent of EBRD, IFC and RBOF Holding Company I Ltd. (the "**Investors**").

Pursuant to the Shareholders' Agreement, the parties agreed to procure that CBM would adopt a new charter which would conform with the provisions of the Shareholders' Agreement to the extent permitted by applicable law. In November 2012, CBM adopted a new charter which was registered with the CBR. A further new charter of CBM was adopted on in December 2013 and registered with the CBR. The current charter was amended several times.

The Shareholders' Agreement contains certain provisions whereby certain of the parties have made agreements regarding the retention and/or disposal of their respective shareholdings, in each case under certain circumstances and subject to the satisfaction of certain conditions. As a part of the Shareholders' Agreement arrangements, Mr. Avdeev, Concern Rossium and Wellcreek Corporation have each agreed to acquire the shares of CBM owned by the Investors at the option of the Investors upon the occurrence of certain specified events.

Policy Agreement

CBM entered into a policy agreement (the "**Policy Agreement**") with the Investors dated 20 July 2012, as amended, in order to define certain reporting and compliance obligations of CBM related to its corporate governance and business operations. The Policy Agreement contains, among other things, provisions relating to indemnification by CBM of the Investors (and their officers) against any losses in connection with, among other things, any failure by CBM to perform its obligations under the transaction documentation pursuant to which the Investors subscribed for their shares in CBM. In the Policy Agreement, CBM has agreed to the following obligations, among others: (i) to submit certain information to the Investors on a regular basis, (ii) to maintain the corporate governance structure as agreed among CBM's shareholders and (iii) to maintain an aggregate exposure to related borrowers of no more than 15% of CBM's capital.

Dividends and Dividend Policy

The General Shareholders' Meeting of CBM determines whether to pay annual, semi-annual, nine months or first quarter dividends, as well as the amount, form and date of payment. According to CBM's Charter, the dividends must be paid in cash. Dividend payments must not exceed the amount recommended by the Supervisory Board.

CBM has not paid any dividends to date and has no current plans to do so.

Reserve Fund

Pursuant to CBM's Charter and Russian legislation, CBM has created a reserve fund that must be in the amount of not less than 5% of the share capital of CBM. The fund's facilities can only be used for

two purposes: (i) compensation for losses of CBM and (ii) redemption of CBM's bonds and buy-back of its own shares, in each case provided there are no other sources of funding available to CBM.

RELATED PARTY TRANSACTIONS

The following is an overview of CBM's transactions with related parties as at the dates indicated below. CBM's financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from the Financial Statements.

According to IFRS, parties are considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over, the other party's financial or operational decisions, as defined by IAS 24 "Related Party Disclosures". In determining each possible related party relationship, one must consider the substance of the relationship and not merely the legal form. CBM's majority shareholder is Roman Avdeev, with whom or with entities under his control, CBM maintains a number of balances and conducts certain transactions from time to time. CBM enters into banking transactions in the ordinary course of its business with shareholders, management, subsidiaries and companies with which it has significant shareholders in common. These transactions include settlements, deposit taking, lending operations and issue of guarantees. CBM provides loans to the members of CBM's management from time to time for different purposes, including mortgage loans, car loans, general-purpose loans and overdrafts. These transactions are priced predominantly at market rates. It is CBM's policy to conduct transactions with related parties on the same terms and conditions as it applies to non-related party transactions.

The table below sets out the outstanding balances as at 31 December 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
	(RUB thousands)		
Loans to customers			
Under control of principal beneficiary	18,318,205	991,190	518,437
Management	70,248	114,800	22,478
Total loans to customers	18,388,453	1,105,990	540,915
Deposits by customers			
Term deposits by customers			
Parent company	977,270	14,207	23,473
Principal beneficiary	827,366	282,176	257,710
Under control of principal beneficiary	240,795	266,381	48,342
Management	145,264	191,100	146,852
Total term deposits by customers	2,190,695	753,864	476,377
Current accounts by customers			
Under control of principal beneficiary	68,063	210,502	14,062
Management	64,115	8,485	9,191
Principal beneficiary	3,139	355	10,363
Parent company	477	41,817	894
Total current accounts by customers	135,794	261,159	34,510
Total deposits by customers	2,326,489	1,015,023	510,887
Guarantees issued			
Under control of principal beneficiary	342,633	4,287,052	—
Total guarantees	342,633	4,287,052	—

The table below sets out the amounts included in profit or loss and other comprehensive income for the years ended 31 December 2016, 2015 and 2014.

	For the year ended 31 December		
	2016	2015	2014
Interest income on loans to customers		<i>(RUB thousands)</i>	
Under control of principal beneficiary	778,416	118,208	80,280
Parent company	20,309	-	-
Management	9,415	9,355	7,404
Principal beneficiary	-	193,411	737
Total interest income	808,140	320,974	88,421
Interest expense on deposits by customers			
Under control of principal beneficiary	250,732	23,053	1,450
Parent company	67,411	76,808	13,608
Principal beneficiary	20,270	24,998	67,163
Management	12,837	15,069	10,113
Total interest expense	351,250	139,928	92,334

THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

Overview

As at the date of this Prospectus, the banking sector mostly offers services related to short term and midterm financing due to the historical instability of the Russian lending market and the difficulty borrowers face in providing adequate collateral.

According to the CBR, as at 1 January 2017, the total assets of the Russian banking sector were valued at approximately RUB80,063.3 billion, of which 78.1%, or RUB62,490.5 billion, were represented by top-20 Russian banks.

History of the Russian Banking Sector and Banking Statistics

Under the Soviet regime, the former State Bank of the USSR, or Gosbank (the predecessor of the CBR), allocated resources from the Soviet Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with the relaxation of controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, during the second phase of the reform, regional commercial banks (primarily in the form of cooperatives or joint stock companies) began to rapidly emerge (with initial capital between RUB500,000 and RUB300 million). By 1992, 1,500 licences had been granted to banks. In 1991, three of the specialised state dependent banks were transformed into joint-stock companies and some regional branches became independent from their head offices through management buyouts.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December 1991.

Between 1991 and 1998 the Russian banking sector experienced rapid growth. The number of commercial banks in Russia increased from 358 in 1990 to 2,538 in 1996. On 17 August 1998, the Russian financial market suffered a serious crisis in part as a result of the Asian financial crisis that began in 1997, causing major concerns over the liquidity and solvency of the market as a whole. In connection with the crisis, the Russian Government defaulted on its sovereign debt and the CBR announced a gradual devaluation of the Rouble, the imposition of a repayment moratorium on certain loans to foreigners and the compulsory restructuring of approximately U.S.\$40 billion of short-term treasury instruments. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organisations (“**ARCO**”). However, due to the stabilisation of the Russian banking sector, the importance of ARCO as the administrator of credit organisations undergoing financial restructuring has decreased. On 18 October 2003, the last of such credit organisations was withdrawn from ARCO's administration, and pursuant to Federal Law No. 87-FZ “On Abolition of Federal Law “On Restructuring of Credit Organisations” and Certain Provisions of Legal Acts of the Russian Federation and On the Liquidation Procedure of State Corporation “Agency for Restructuring of Credit Organisations” dated 28 July 2004 (the “**ARCO Liquidation Law**”), ARCO itself was liquidated. Pursuant to the ARCO Liquidation Law and Federal Law No. 177-FZ “On Insurance of Deposits of Individuals in Banks in the Russian Federation” dated 23 December 2003, as amended (the “**Deposit Insurance Law**”), the assets of ARCO were transferred to the State Deposit Insurance Agency.

Following the 1998 financial crisis, the number of credit organisations operating in Russia fell to 1,586 by 1 July 2004. The 1998 financial crisis revealed the lack of proper controls in the banking sector and increased public concerns over the integrity of the banking system, in particular, concerns regarding misleading advertising, money laundering and corruption.

Further, the Russian banking sector experienced instability and a liquidity deficit in 2004 resulting from the actions taken by the CBR and a crisis of confidence among Russian banking customers. From May to July 2004, the CBR revoked banking licences of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending market and to liquidity pressures for many Russian banks. The collapse of a number of Russian banks caused panic among depositors, and even the more reliable, larger banks experienced depositor withdrawals and liquidity problems as banks were unable to attract funds on the interbank market or from their client base. In 2004, the Russian banking sector experienced instability, which resulted in a crisis of confidence towards Russian banks by their customers. The CBR took effective steps to reverse the trend. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7% to 3.5%. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, legislation was passed to combat the crisis and to minimise potential losses of private depositors. In accordance with amendments to Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" dated 10 July 2002 (the "**Central Bank Law**") enacted in 2004, the CBR is required to make payments to private depositors of insolvent Russian banks if such banks have not been admitted to the system of private deposit insurance prior to their bankruptcy. The CBR is also able to impose, for the term of one year, a limit on the interest rates on deposits paid by banks to private depositors. In addition, banks are required to disclose certain information related to the interest rates on deposits, banks' liabilities in respect of deposits and amounts of cash withdrawals by private depositors.

In 2007, disclosure of effective interest rate became a precondition to grouping the loans in portfolios for the purposes of calculation of loss allowances (but later this provision was abolished). Since April 2008, banks are required to disclose all costs that may be associated with obtaining a bank loan by an individual.

In the second half of 2008, in response to the 2008/2009 crisis and its impact on the Russian banking system and overall economy, the Russian authorities and the CBR introduced certain measures intended to prevent bankruptcy of credit organisations. These measures were taken in accordance with Federal Law No. 175-FZ "On Additional Measures for Strengthening the Stability of the Banking System for the Period until 31 December 2014" dated 27 October 2008, as amended (the "**Banking System Stability Law**") and decisions taken in September and October 2008 prior to the effective date of this law. The number of credit organisations subject to such measures increased from 7 (with assets of RUB576.2 billion, or 2.3 per cent. of the total assets of Russian credit organisations) as of 1 November 2008 to 20 (with assets of RUB 749.2 billion, or 2.7 per cent. of the total assets of Russian credit organisations) as of 1 January 2009, but then, in June 2015, decreased to 17 (with assets of RUB3,514.5 billion, or 4.9 per cent. of the total assets of Russian credit organisations). The Banking System Stability Law envisaged that the State Deposit Insurance Agency would assist distressed banks through: (i) attracting investors for credit organisations which are experiencing financial difficulties; and (ii) liaising with the CBR regarding the provision of financial assistance to such credit organisations. Thanks to these measures, together with the post crisis economic and financial recovery in 2010, Russia was able to avoid collapses of systemically important financial institutions and the disintegration of its financial system.

In the years that followed, Russia's banking system experienced another period of rapid expansion, this time driven by the rapid development of the retail banking services market, including unsecured lending such as credit cards, cash or loans. At the same time, Russian banks have once again tapped the Eurobond market and raised financing in the growing rouble-denominated domestic bond market.

In 2013-2016, however, the number of banks operating in the Russian Federation substantially decreased due to the campaign implemented by the CBR aimed at removing fraudulent failing or undercapitalised financial institutions from the sector and making it more robust, stable and transparent in the event of any potential systemic shocks. In pursuit of this campaign, the CBR

revoked banking licenses from a large number of banks, which substantially undermined the sustainability, reliability and predictability of the sector. In addition, downturn in global and Russian economy in 2014-2016 provided further negative impact on the stability and development of the Russian banking sector. For further information, see *“Risk Factors -The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on CBM’s business”*.

According to the Deposit Insurance Agency, as at 10 October 2016, the CBR and the Deposit Insurance Agency have launched rehabilitation measures in respect of 30 credit organisations. For further information on legislative and governmental measures adopted in response to the 2008/2009 crisis, see *“— Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities since October 2008”* below.

Structure of the Russian Banking Sector

The Russian banking sector consists of the CBR, credit organisations and representative offices of foreign banks. Credit organisations, in turn, consist of banks, which provide a wide range of banking services, and non-banking credit organisations, which provide only limited banking services, such as maintaining accounts and making payments.

State-owned banks continue to play a key role in the development of the Russian banking sector. State-owned banks offering retail banking services include Sberbank and VTB. Other state-owned banks focus primarily on operations with budgetary funds and participate in the realisation of governmental programmes (for example, Rosselkhozbank (Russian Agricultural Bank)).

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The presence of foreign-owned banks in the Russian market is relatively limited as their activities have been restricted in order to protect the nascent Russian banks. Foreign-owned banks must satisfy additional requirements in connection with obtaining a licence, for example, there must be a degree of reciprocity in the home country of the foreign bank.

Current Competitive Landscape

The banking sector in the Russian Federation is highly fragmented and competitive. As at 1 January 2017, according to the CBR, there were 975 banks and non-banking credit organisations registered in the Russian Federation. However, as at 1 January 2017, the five largest banks accounted for 55.3% of the total value of banking assets in the Russian Federation, and the following fourteen largest banks accounted for 22.8%, according to the CBR.

According to the CBR, a number of the country’s largest banks are part of financial industrial groups and as such undertake transactions for related parties. As at 1 February 2017, approximately 51.5% of banks operating in Russia were located in the Moscow region. The following table sets out market share data for the ten largest banking groups by total assets (according to RAS) as at 1 February 2017.

	Total Assets	
	Rank	RUB billion
Sberbank	1	22,474.4
VTB Bank	2	9,609.2
Gazprombank	3	5,318.7
VTB24	4	3,186.4
Russian Agricultural bank	5	2,914.5
Bank FC Otkritie	6	2,754.5
National Clearing centre	7	2,466.3
Alfa Bank	8	2,386.9
CBM	9	1,375.2
Promsvyazbank	10	1,319.6

Source: Interfax.

The presence of foreign-owned banks in the Russian market is relatively limited. Historically, foreign controlled banks have primarily serviced multinational firms operating within the Russian Federation and conducted inter-bank operations. More recently, these banks have increased their presence in Russian retail banking and have increased their loan portfolio in several sectors of the economy. The level of foreign investment in the Russian banking sector remains relatively low, with foreign banks accounting for 16.1% of statutory capital as at 1 January 2017, according to the CBR.

Role of the CBR

The CBR is the primary authority responsible for the regulation of banking institutions in Russia and also acts as Russia's central bank.

Until 2002, the CBR had been operating under the general terms of reference of Federal Law "On the Central Bank of the Russian Federation (the Bank of Russia)" dated 2 December 1990, as amended. In 2002, this law was superseded by the Central Bank Law. According to the Central Bank Law, the State cannot be liable for the CBR's obligations, nor can the CBR be liable for the State's obligations unless the relevant liability has been undertaken or is required by law. The CBR's property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR's governing bodies are the Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR's chief auditor, approval of the CBR's accounting rules and requirements). The structure of the CBR comprises the Moscow Head Office, a number of regional branches in constituent entities of the Russian Federation (in some of the Russian republics the CBR's regional branches are called National) and local branches. The Chairman of the CBR's Board of Directors is appointed for a fixed term of five years by the State Duma (the lower chamber of the Russian Parliament), on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development have the right to participate in meetings of the CBR's Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council *ex officio*.

Under the Central Bank Law, the Banking Law and Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Control Law**"), the CBR is authorised to adopt implementing regulations on various banking and currency control issues. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

The Federal Service for Financial Markets (the "**FSFM**") used to issue licences to banking institutions acting as professional participants of the Russian securities market. According to the Federal Law No. 251-FZ "On Amending Certain Legislative Acts of the Russian Federation in connection with the Transfer of Authorities on Regulation, Control and Supervision in Financial Markets" dated 23 July 2013, as amended, the authorities of the FSFM were transferred to the CBR with effect from 1 September 2013. The CBR succeeded the authorities of the FSFM in regulating and overseeing, *inter alia*, activities of banks as professional participants of the securities market.

Under current legislation, the CBR has the following major functions:

<i>Function</i>	<i>Summary</i>
Issue of money and regulation of circulation	The CBR is the sole issuer of Russian Rouble banknotes and regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash. However, the CBR is prohibited from issuing money for purposes of budget deficit Rouble and foreign currency accounts of residents and non-residents in Russia.
Licensing	Issuance, suspension and revocation of banking licences to banks. Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 1%) stakes in banks; assessment of financial standing of banks' founders (shareholders/participants).
Control and supervision	

Banking Regulation

The Banking Law is the principal law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

In accordance with Federal Law No. 135-FZ "On Competition Protection" dated 26 July 2006, as amended, the Federal Antimonopoly Service of the Russian Federation (the "FAS") regulates mergers and acquisitions of stakes in excess of 25, 50 and 75% of the total voting shares in credit organisations established in the form of joint stock companies, participation interests representing one third, half and two thirds of the charter capital of credit organisations established in the form of limited liability companies and acquisitions of certain shares of credit organisations' assets or rights to determine conditions relating to their activities. In addition, the CBR approval is required for the acquisition of or setting up of a trust management over stakes in excess of 10% of total voting shares in Russian credit organisations and any subsequent increases of ownership/trust holding above thresholds of 25, 50 and 75% of shares or the acquisition of 100% of share capital. The CBR approval is valid for one year from the date of issuance, and the applicant may acquire any amount of shares in a credit organisation within the threshold and total acquisition price stipulated in such CBR approval. Where more than 1% of share capital of a bank is purchased or trust management over such shares is created, the CBR should be notified of such acquisition or actions. Tax authorities supervise tax assessments of banks. Other governmental authorities are largely inactive in relation to banks. The Association of Russian Banks, comprising, as at 28 February 2017, 490 members, including 317 member credit organisations, was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation. It offers various types of technical support to its members and lobbies the interests of banks in all branches of power. Set out below are some of the principal features of the regulatory regime governing banks in Russia.

Recent Amendments to the Banking Law

In accordance with the amendments introduced by the Federal Law No. 29-FZ "On Amending Certain Legislative Acts of the Russian Federation" dated 14 March 2013 it is forbidden for foreign banks to establish their branches on the territory of the Russian Federation. Therefore, foreign banks may carry out business activity on the territory of the Russian Federation only by establishment of subsidiary companies or through representative offices, whereas branches of foreign banks were excluded from the bank system of the Russian Federation. The Regulation of the CBR No. 467-P dated 22 April 2015

sets for the procedure for opening representative offices of foreign credit organisations in the Russian Federation and for the activities thereof.

On 2 July 2013, further amendments to the Banking Law were introduced, and are now effective, by the Federal Law No. 146-FZ “On Amendments to Certain Legislative Acts of the Russia Federation”. Among the most important, the amendments provide for the following:

- preliminary CBR consent is required for acquisition of over 10% of shares in a Russian bank (instead of the previous 20% threshold);
- rules for qualifying a banking group (*bankovskaya gruppа*) and a banking holding (*bankovskiy kholding*) were changed. As opposed to the previous rules, the amendments define a banking group as an association of legal entities under control or significant influence of one credit organisation. The definition of a banking holding was expanded: a bank holding is now defined as an association of legal entities, at least one of which is a credit organisation, under control of a parent legal entity, not a credit organisation, provided that a share of banking activities is at least 40% of the overall activities of this holding. Rules for reporting and disclosure by Russian banks were also slightly clarified in connection with the above new rules; and
- competence of the board of directors of a Russian bank was expanded. In particular, the amendments authorise the board of directors to adopt risk and capital management strategy, methodology of risk management and models of risk assessment, the procedure for resolving of conflicts of interests in the bank, appoint the head of an internal audit department and adopt regulations relating to remuneration of, and requirements to, employees involved in operations affecting compliance with mandatory capital ratios and interests of clients of the bank. Therefore, such authorities may not be referred to competence of the other management bodies.

In July 2015, the CBR published Order No. 3737-U “On Procedure of Determination of the List of Systemically Important Credit Organisations” that introduced certain criteria and procedure for the preparation of a list of systemically important credit organisations. For the purposes of preparing this list, the CBR has taken into account, among other things, the size of a credit organisation in relation to the entire banking sector, the amount of retail deposits, the volume of funds raised from other financial institutions and the funds placed with other financial institutions. The list of systematically important credit organisations includes banks that account for more than three-fifths of the total assets of the Russian banking sector and is subject to annual review. Credit organisations are informed by the CBR of being included in the list. The list of Systemically Important Credit Organisations was initially published on 15 July 2015 and updated on 20 October 2015 and 30 September 2016.

In December 2015 the Federal Law No. 372-FZ “On Amending Article 16 and Article 18 of the Banking Law” introduced additional requirements to the establishment and operations of credit organizations with foreign investments (investment of non-residents).

Licensing

A licence must be obtained from the CBR in order for any institution to engage in banking activity as defined in the Banking Law. Applicants must be incorporated within Russia and registered with the CBR as a credit organisation, and submit, *inter alia*, a feasibility report and detailed information on the suitability of the applicant’s management team. A banking licence may be denied for a number of reasons, including if the financial standing of the founders of the bank is deemed by the CBR to be unsatisfactory or if the proposed candidates for the senior management of the bank, including members of the management board and the chief executive officer, are deemed to be unsuitable or do not meet the qualification requirements.

Additional requirements have been introduced for obtaining a licence for taking deposits from individuals. The licence could be granted to a bank being a member of the Deposit Insurance System existing for more than two years from the date of its registration. Such requirement may be dispensed with if (a) the charter capital of a newly established bank or the regulatory capital of a bank is not less than RUB3,600 million, and (b) the bank complies with the CBR's requirement to publicly disclose all information relating to persons having significant influence over decisions made by the bank's management bodies.

Pursuant to the Banking Law, a bank's licence may be revoked by the CBR if, *inter alia*: (a) the information upon which the licence has been issued is untrue and misleading; (b) the bank delays the commencement of its operations for more than one year from the issue of the licence; (c) reporting statements submitted by the bank turn out to be materially untrue and misleading; (d) the bank delays submission of its monthly reports to the CBR for more than 15 days; (e) the bank conducts banking operations (or a single operation) not permitted by its licence; (f) the bank's activities do not comply with Russian banking or anti-money laundering legislation or regulations of the CBR and the bank has been subject to sanctions for such breaches/non-compliance before that; (g) multiple failures, whether intentionally or by negligence, to carry out bailiffs' orders requiring seizure of funds in customer accounts; (h) in cases of insolvency, the revocation of the banking licence is requested by the temporary administration appointed to the bank; (i) the bank repeatedly fails to submit updated information required to be reflected in the Unified State Register of Legal Entities and Entrepreneurs in the Russian Federation; (j) a bank involved in mortgage-backed asset management operations does not comply with Russian mortgage-backed securities legislation and the bank has been subject to sanctions for such breaches/non-compliance before that; or (k) the bank fails to comply with Russian anti-money laundering or insider trading laws and regulations.

The CBR must revoke a bank's licence if, *inter alia*: (a) its capital adequacy ratio falls below 2 (b) its regulatory capital is less than its minimal charter capital as set by the CBR; (c) the bank fails to adjust its charter capital to its regulatory capital according to CBR requirements within 45 days of the CBR notification; (d) the bank fails to satisfy the claims of its creditors or make mandatory payments (for example, taxes and duties) amounting to an aggregate minimum of RUB100,000 within 14 days of their maturity; or (e) the amount of the bank's regulatory capital is less than a certain statutory threshold during a certain defined period of time.

Regulation of Capital

Basel Implementation in Russia

Current Russian regulation of capital is based on Basel I. It is, however, less sophisticated in certain respects. Over the recent years, the CBR, in cooperation with Russian banks, has started preparing the implementation of international approaches of capital adequacy of credit organisations under Basel II as issued by the Basel Committee. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. CBR Letter No. 96-T of 29 June 2011 issued as part of introducing Pillar 2 "Supervisory Review Process" (the "**Methodical Recommendations**") recommends credit organisations to elaborate and use the respective internal procedures for capital adequacy assessment which should comprise the process of assessment by a credit organisation of adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture.

Basel III Regulation

The implementation of Basel III in Russia is scheduled as follows: (1) requirements for capital between 2013 and 2015, (2) capital conservation buffer within 2016 and 2018, (3) leverage ratio starting from 1 January 2018, (4) liquidity coverage ratio commencing from 1 January 2015, and (5) net stable funding ratio starting from 1 January 2018.

From 1 January 2014, Regulation No. 395-P is fully applied by Russian banks for the purposes of calculating their own funds (capital). Regulation No. 395-P provides for the following two types of subordinated debt instruments that may qualify for inclusion into bank regulatory capital if they meet the requirements set out in Regulation No. 395-P: (a) perpetual and certain long-term subordinated debt instruments; and (b) plain subordinated debt instruments.

Regulation No. 395-P is being phased in gradually during the period from 1 January 2014 until 1 January 2018 as described below.

In addition, CBR's Regulation No. 3872-U dated 1 December 2015 and Regulation No. 4098-U have provided for further clarification of provisions of Regulation No. 395-P, introducing additional requirements and methodology for formation of the bank's capital.

New Classification of Capital under Regulation No. 395-P

Regulation No. 395-P distinguishes between core capital (*osnovnoi kapital*) ("**Tier 1 capital**") and supplemental capital ("**Tier 2 capital**") (*dopolnitennyi kapital*) (together, "**own funds**" or "**regulatory capital**"). Tier 1 capital is further divided into base capital ("**Base Tier 1 capital**") (*bazovyi kapital*) and additional capital ("**Additional Tier 1 capital**") (*dobavochnyi kapital*). Pursuant to Regulation No. 395-P, the own funds (capital) of Russian banks is determined as the amount of its Tier 1 capital and Tier 2 capital less certain items listed in Regulation No. 395-P.

Enactment of Regulation No. 395-P

Regulation No. 395-P became effective on 1 March 2013. It is applicable for prudential regulation purposes from 1 January 2014.

In addition, under Regulation No. 395-P certain ratios reducing Base Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and the sum of Tier 1 and Tier 2 capital will be phased in gradually and included in the calculation of the capital as follows:

- from 1 January 2014 – in the amount of 20% (or 80%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P;
- from 1 January 2015 – in the amount of 40% (or 60%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P;
- from 1 January 2016 – in the amount of 60% (or 40%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P;
- from 1 January 2017 – in the amount of 80% (or 20%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P; and
- from 1 January 2018 – in the amount of 100% (or complete discontinuation of use of certain types of reducing ratios) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P.

Subordinated Debt

Prior to the enactment of Regulation 395-P, Russian banks' capital calculations used, among other things, in CBR mandatory ratio reporting, as well as requirements for subordinated debt to qualify as part of a bank's capital, were primarily set out in CBR Regulation No. 215-P "On the method of determination of own funds (capital) of credit organisations" dated 10 February 2003, as amended.

Regulation 395-P sets out requirements for subordinated financings (in the form of a loan, a deposit or debt securities) which may be included in additional Tier 1 capital and those which may be included in

Tier 2 capital of a credit organisation. Amongst other changes, Regulation 395-P introduces to Russian banking legislation the concept of conversion of subordinated debt into equity (while retaining the concept of writedown and cancellation of subordinated debt instruments), which features have been derived from the Basel III regulations.

Regulation 395-P sets out, *inter alia*, the following requirements for subordinated debt to qualify as part of a bank's Tier 2 capital:

- the agreement must provide that, if the bank's CET 1 ratio (defined as a ratio of the bank's adjusted base capital to its risk-weighted assets) falls below 2% for six or more operational days within a 30-day period, or the Deposit Insurance Agency implements bankruptcy prevention measures consisting of financial assistance provided pursuant to the Insolvency Law;
- the subordinated debt shall be converted into the bank's ordinary shares; and (or)
- the accrued interest shall be fully or partially cancelled; and
- a partial or full write down of the principal amount of such debt (and any applicable financial sanctions) shall occur (the "**Write Down Measures**").

Regulation 395-P does not establish any limitations on the amount of subordinated debt which could be counted towards Tier 1 or Tier 2 capital.

Subordinated debt may also be included into a bank's Tier 1 capital, if it meets certain requirements in addition to those applicable for subordinated debt qualifying as part of Tier 2 capital. In particular, such debt must be perpetual under Regulation 395-P and in each case provide for implementation of the Write Down Measures in case the CET 1 ratio falls below 5.125%. In addition, Tier 1 capital subordinated debt must allow the credit organisation to unilaterally repudiate payment of interest under such debt.

If the CET 1 ratio was breached due to losses, such losses may only be covered by the Write Down Measures after utilization of other sources of base capital (including reserve funds and undistributed profit) to remedy such losses.

Regulation 395-P sets out certain other requirements for subordination debt, including, *inter alia*: (a) a right of a bank to repay a subordinated loan using Russian federal bonds; (b) ability of a bank to include subordinated loans with no defined repayment term or subordinated bonds with no defined repayment term into the calculation of a bank's additional Tier 1 capital; (c) maximum interest rate for ruble-denominated instruments and for foreign currency-denominated instruments shall not exceed 15% and 10%, respectively; (d) ability of the CBR to require a bank to convert its subordinated debt instrument into its equity to bring the bank's CET 1 ratio up to 5.125% if the bank's CET 1 ratio falls below 5.125% for six or more business days within a 30-day period, or the Deposit Insurance Agency implements bankruptcy prevention measures consisting of financial assistance pursuant to Insolvency Law.

Mandatory Economic Ratios

CBR Instruction No. 139-I "On the Banks' Mandatory Economic Ratios" dated 3 December 2012 (the "**Mandatory Economic Ratios Instruction**") establishes mandatory economic ratios for banks.

The following table sets forth the mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAR, as formulated by applicable Russian laws and CBR regulations.

As mentioned above, a bank's capital base consists of core capital and supplemental capital. Core capital consists of base capital and additional capital and includes, among other items, charter capital, share premium, retained earnings and certain reserve funds. Supplemental capital includes, among other items, reserves for asset revaluations, reserves for loan losses, certain preferred shares and subordinated debt.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirements
Adequacy ratios	These ratios are intended to limit the risk of a bank's insolvency and to establish the minimum size of the bank's capital base necessary to cover credit, operational and market risks. Adequacy ratios include capital adequacy ratio (N1.0), common equity tier 1 capital adequacy ratio (N1.1) and Tier 1 capital adequacy ratio (N1.2).	
<i>Capital adequacy ratio (N1.0)</i>	This ratio is formulated as a ratio of a bank's capital base (calculated in accordance with Regulation No. 395-P) to: (i) credit risk on on- balance sheet assets, (ii) credit risk on off- balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 8%
<i>Common equity tier 1 capital adequacy ratio (N1.1)</i>	This ratio is formulated as a ratio of a bank's common equity tier 1 capital (calculated in accordance with Regulation No. 395-P) to: (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 4.5%
<i>Tier 1 capital adequacy ratio (N1.2)</i>	This ratio is formulated as a ratio of a bank's tier 1 capital (calculated in accordance with Regulation No. 395-P) to: (i) credit risk on on- balance sheet assets, (ii) credit risk on off- balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 6%
Instant liquidity ratio (N2)	This ratio is intended to limit the bank's liquidity risk during one operational day. It is defined as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15%
Current liquidity ratio (N3)	This ratio is intended to limit the bank's liquidity risk during 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50%
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120 %
Maximum exposure to a single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (as defined in the applicable regulations). It is defined as the ratio of the aggregate amount of the banks various credit claims to a borrower (or a group of	Maximum 25%

related borrowers) to its capital base.

Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined in the Banking Law as the sum of loans to, and guarantees or sureties in respect of, clients with exposure exceeding 5% of a bank's capital base). It is defined as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800%
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants/(shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the banks owners. It is defined as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders to its capital base.	Maximum 50%
Aggregate amount of exposure to the banks insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing decisions on granting of credit). It is defined as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3%
Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of banks investments in shares (participation interests) of other legal entities. It is defined as the maximum ratio of the banks investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25%

In addition to mandatory economic ratio requirements the CBR set out three capital buffers to the common equity: (a) capital conservation buffer; (b) countercyclical buffer and (c) additional capital buffer for systemically important credit organisations. The capital conservation buffer applies to all credit institutions and has been set at 0.625% of risk-weighted assets starting from 1 January 2016 and will be increased each subsequent year by an additional 0.625% to reach 2.5% by 1 January 2019.

The CBR has set a minimum allowed countercyclical buffer at 25% of the weighted average of countercyclical buffers set in all jurisdictions to which the bank has credit and market exposure (calculated in accordance with applicable CBR rules) starting from 1 January 2016 which will gradually increase each year to reach 100% by 2019. The level of the applicable countercyclical buffer for the Russian banks is determined by the CBR and as at the date of this Prospectus set at zero per cent. of risk weighted assets.

The systemically important credit organisations are subject to an additional capital buffer of 0.15% of risk-weighted assets starting from 1 January 2016 with subsequent increases each year to reach 1% on 1 January 2019.

Amendments to the Mandatory Economic Ratios Instruction (effective from 1 January 2014) introduced a definition of individuals capable of influencing decisions on granting of credit (with respect to aggregate amount of exposure to a bank's insiders (N10.1)). According to the these amendments, the following individuals must be considered as being capable of influencing decisions on granting of credit: (i) affiliates of a bank; (ii) members of bank's credit board; (iii) the chief accountant of a bank or any of its branches; (iv) chief executive officer of a bank or any of its branches; (v) other bank officers that by virtue of position at the bank may influence decisions on granting of credit (the list of relevant positions is to be set forth in an internal regulation of the relevant bank); as well as (vi) close relatives of individuals mentioned in items (i)-(v).

The amendments also affect the calculation of risk-weightings. In particular, the new methodology is applied to derivatives and syndicated loans for the purpose of calculating the relevant bank's risk-weighted assets under the CBR's economic ratios after 1 January 2014. In addition, the Banking Law imposes restrictions on banks regarding the payment of dividends, investments in companies and

certain other actions if such actions may result in breach of the capital conservation buffer established by the applicable CBR regulations.

Charter Capital Requirements

The Banking Law sets out the minimum charter capital for newly-established banks in Russia the amount of RUB300 million.

Further, pursuant to the Banking Law, the minimum regulatory capital for banks applying for a general banking licence to RUB900 million. It also requires the gradual increase of the net worth (capital) by banks that had a regulatory capital of less than RUB180 million as at 1 January 2007 (such banks were allowed to continue their banking activities provided their net worth (capital) reached at that date would not further decrease). Their net worth (capital) must be at least (a) RUB180 million as at 1 January 2012 and (b) RUB300 million as at 1 January 2015. Failure to comply with this requirement will result in revocation of the banking licence.

Reporting Requirements

Russian banks must regularly submit balance sheets to the CBR, together with financial statements showing their actual respective financial positions. They must also inform the CBR in respect of providing large loans (exceeding 5% of a bank's capital). Banking groups (namely an association of legal entities under control or significant influence of one credit organisation) and banking holding (namely an association of legal entities, at least one of which is a credit organisation, under control of a parent legal entity, not a credit organisation, provided that a share of banking activities is at least 40% of the overall activities of this holding) must regularly submit consolidated accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by an audit company that is a member of a self-regulatory organisation of auditors. Starting from 2004, all credit organisations in Russia have been required to prepare financial statements according to both RAR and IFRS. Banks must file IFRS standalone and audited consolidated annual accounts with the CBR on an annual basis.

Mandatory Reserve Deposit Requirements

To cover loan losses and currency, interest and financial risks, the CBR requires banks to form mandatory reserve deposits and keep them in designated non-interest-bearing accounts with the CBR. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. As at the date of this Prospectus, banks are required to post compulsory reserves to be held on non-interest-bearing accounts with the CBR. To stabilise the situation on the local financial market and to support the liquidity of the Russian banking sector, the CBR decreased in October 2008 mandatory reserves for various obligations of credit organisations to 0.5% and successively increased them starting from 1 May 2009 to 4.25 and 5.25% for the banks' obligations to individuals in Roubles or foreign currency, respectively, to 4.25 or 6.25% for the banks' obligations to other obligations in Roubles or foreign currency, respectively, and to 4.25 or 6.25% for the banks' obligations to non-resident legal entities in Roubles or foreign currency, respectively. On 1 August 2016 the mandatory reserves requirements for the obligations of credit organisations were increased by 0.75% for all categories of obligations.

The mandatory reserves are calculated by banks in accordance with CBR Regulation No. 507-P dated 1 December 2015 and Regulation No. 4052-U dated 27 June 2016 (the "**Reserves Regulations**"). The Reserves Regulations require the banks to promptly report to the CBR and its regional units at the end of each calendar month with calculation of reserves and to promptly post additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to monitor their compliance with the reserve rules. The Reserves Regulations do not require the creation of reserves for certain long-term borrowings, although it requires posting of reserves for obligations to non-resident banks. If a bank does not comply with the mandatory cash

balance requirements, the CBR may impose a fine and directly debit the bank's correspondent account with the CBR in respect of the shortfall in reserve amounts.

Provisioning

The CBR established certain rules concerning the creation of loan impairment provisions for loans extended by banks. Since 1 August 2004, Russian credit organisations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 254-P "On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations" dated 26 March 2004, as amended ("**Regulation No. 254-P**"). The Regulation No. 254-P introduced a number of rules, which purport to make loan impairment provisioning compliant with the Basel requirements. In particular, it requires credit organisations to rank their loans into five categories. The range of loans that must be provided for has been extended to include assigned rights under contracts, financial leasing operations, mortgages acquired in the secondary market, rights under repo contracts (if the securities transferred under such repo transactions are unlisted) and various other operations. It has been established that loans classified as Category I loans (standard loans) do not need provisions. In addition, credit organisations will be required to classify their loan security into three groups on the basis of its quality (taking into account the borrower's financial position and debt servicing level).

Pursuant to Regulation No. 254-P, the debt servicing level of a loan to a legal entity is considered to be good if the aggregate loan or interest repayment arrear does not exceed 5 days (in respect of loans granted to legal entities) and 30 days (in respect of loans granted to individuals) for the last 180 calendar days. The debt servicing level of a loan to a legal entity is considered to be bad in cases if, inter alia, the aggregate loan or interest repayment arrear exceed 30 days (in respect of loans granted to legal entities) and 60 days (in respect of loans granted to individuals) for the last 180 calendar days. In addition, restructuring of a loan (including change of the loan nominal currency and time periods for repayment of the loan and interest) may affect the debt servicing level. Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrower's financial standing and debt servicing level. The credit organisation must evaluate at its discretion the borrowers financial standing and debt servicing level as good, average or bad. Regulation No. 254-P sets forth the relevant tests to be applied towards a particular loan and borrower.

On 3 December 2012, the CBR adopted changes to Regulation No. 254-P, which, among other things, doubled the CBR's required provisioning levels under RAR for certain unsecured consumer loans issued after 1 January 2013 that are either not overdue or overdue by less than 31 calendar days.

Regulation No. 254-P expands the range of loans to be so classified to include rights assigned under contracts, mortgages acquired in the secondary market, claims relating to purchase of financial assets with deferred payment, rights under repo contracts (if such repo contracts are concluded in respect of unlisted securities) and others. Under Regulation 254-P, credit organisations do not need to make provisions for Category I loans (standard loans without credit risk). Additionally, credit organisations must classify loan collateral into two categories on the basis of its quality. Finally, the regulation provides for a somewhat simplified procedure in respect of writing off bad debts, especially minor debts, as compared with the former procedures. In September, 2013 the CBR published a draft of amendments to Regulation No. 254-P relating to a further increase of amounts of provisions for unsecured consumer loans in an effort to curb the increasing pace of growth of the retail loan market. These amendments entered into force in the last quarter of 2013 and affect loans granted after 1 January 2014.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit banks compliance with requirements relating to provisions for loan losses and verify the correctness of calculations in respect of such provisions.

The CBR also established rules concerning creation of provisions for loans other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward contracts and other transactions. CBR Instruction No. 283-P of 20 March 2006 requires banks to rank such assets and operations into five categories of quality reflecting the following situations: (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report to the CBR within eight business days (or within seventeen working days in the case of certain large credit organisations) following the reporting month on the amount of non-loan impairment provisions it had created that month. The CBR and its regional units are responsible for monitoring bank compliance with these rules.

Pursuant to the CBR Directive No. 1584-U of 22 June 2005, mandatory provisions must also be created for operations with residents of certain off-shore jurisdictions in the amount of 25% or 50% depending on the jurisdictions involved.

Regulation of Currency Exposure

In CBR Instruction No. 124-I “On the Establishment of the Amounts (Limits) of the Open Currency Positions, on the Methods of their Calculation and Particularities of Lending Organisations’ Control and Compliance therewith” of 15 July 2005, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, “**currency exposure**”), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees, suretyships and letters of credit. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into Roubles in accordance with the official exchange rates and CBR’s prices for precious metals.

The CBR established that at the end of each operation day the total amount of all long or short currency positions should not exceed 20% of a bank’s capital base. At the same time, at the end of each operation day the long or short positions with respect to one particular currency or precious metal should not exceed 10% of a bank’s capital base.

Accounting Practices

The CBR has established a standard format for the presentation of a bank’s accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accounts in accordance with CBR Regulation No. 385-P of 16 July 2012, Directive of the CBR No. 2851-U “On the procedure for the filling in of and delivery of reporting statements to the CBR” of 16 July 2012. Despite certain differences, such financial statements represent an approximation to IFRS.

Annual financial statements may be published only after their certification by an independent auditor. Quarterly financial statements may be published without such certification by an independent auditor.

Pursuant to the CBR Regulation No. 3580-U dated 2 March 2015, credit organisations must prepare financial statements in accordance with IFRS on the basis of financial statements prepared in accordance with RAS and submit them to the CBR prior to 1 July of the year following the reporting year. The CBR issued recommendations as to how to prepare IFRS financial statements in the CBR letter No. 234-T dated 6 December 2013 that contains pro forma IFRS financial statements and examples of typical adjustments to RAS financial statements.

Anti-Money Laundering Legislation

Russia, as a member of the FATF, has developed and enacted certain anti-money laundering legislation. The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in Russia to be implemented by individuals and organisations, including Russian banking institutions, involved in transactions with money and certain property. Pursuant to the Anti-Money Laundering Law, Russian banks are obligated to, *inter alia*: (1) establish and maintain systems of internal control ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (2) monitor and record certain client transactions, as specified in the Anti-Money Laundering Law; and (3) report certain client transactions specified by the Anti-Money Laundering Law to the relevant Russia authorities. Furthermore, in certain cases Russian banks must suspend client transactions and inform the relevant Russian authorities. The current Anti-Money Laundering Law does not permit banks to suspend or freeze client transactions for longer than two business days unless extended by the authorised body to a longer period.

The Federal Service on Financial Monitoring is the main governmental authority acting as a financial intelligence unit, and, together with the CBR, exercises control over banks' compliance with the Anti-Money Laundering Law. Russian banks are obligated to report through the CBR to the Federal Services on Financial Monitoring with respect to the types of transactions mentioned above.

Failure by Russian banks and/or their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of a banking licence (with a subsequent liquidation of the bank) and criminal penalties for individuals.

On 30 June 2013, several amendments to the Anti-Money Laundering Law came into force. They were introduced by the Federal Law No. 134-FZ "Amending Certain Legislative Acts of the Russian Federation on the Counter Measures on Illegal Financial Operations" dated 28 June 2013. These amendments, among other things:

- introduced the definition of the "beneficiary owner" to the Anti-Money Laundering Law in order to extend the scope of client identification procedure;
- set forth the obligation for the clients to provide all necessary information on their beneficiary owners to banks (for the banks to comply with the provisions of the Anti-Money Laundering Law);
- set forth the obligation for the banks to take reasonable steps for preliminary identification of the clients' reputation, financial position and objectives of the business activity;
- set forth the obligation for the banks to freeze monetary funds and other assets of individuals and legal entities under certain circumstances; and
- for additional measures against financing terrorism.

One more set of amendments to the Anti-Money Laundering Law was adopted by the Federal Law No. 424-FZ "On amending the Anti-Money Laundering Law" dated 30 December 2015. This new law has extended the definition of the "client" to include concept of a "foreign structure without incorporation of a legal entity" which means a structure (such as fund, trust or partnership) entitled by law to do business without being a body corporate. According to these amendments credit organisations are required to verify certain information related to the foreign structure.

Financial Consumer Protection

Financial consumer protection is generally based on the Law No. 2300-1 “On Consumer Protection Law” dated 7 February 1992, as amended (the “**Consumer Protection Law**”) and the Federal Law No. 353-FZ “Consumer Lending Law” dated 21 December 2013 (the “**Consumer Lending Law**”).

The Consumer Lending Law regulating consumer lending in Russia, came into force on 1 July 2014. The Consumer Lending Law is intended to provide more specific regulation of consumer protection in the Russian banking sector, in contrast to the Consumer Protection Law, which contains more general regulations. The Consumer Lending Law will not apply to mortgage loans.

The Consumer Lending Law sets requirements in relation to the terms of a consumer loan agreement. In particular, according to the Consumer Lending Law, a consumer loan agreement must contain general and specific terms. General terms of the consumer loan agreement are based on the lender’s template form, whilst the specific terms are agreed between the lender and the borrower. The Consumer Lending Law designates, among others, the following terms to be the specific terms of the consumer loan agreement: (i) amount of the loan or lending limit (and the procedure of change of the lending limit), (ii) term of the loan and repayment date, (iii) currency of the loan, (iv) the annual percentage rate (in case of floating interest rate – the calculation procedure), (v) payment schedule of the loan, (vi) purpose of the loan and (vii) borrower’s liability for undue performance of its obligations under the consumer loan.

The Consumer Lending Law sets the priority of payments under the loan in case the payment made by the borrower is not enough to discharge its relevant payment obligations. In particular, the Consumer Lending Law sets out the following priority of payments: (i) overdue interest payments, (ii) overdue principal payments, (iii) penalty, (iv) current interest payments, (v) current principal payments and (vi) other payments as provided by the Russian legislation on consumer lending and the consumer loan agreement.

In addition, the Consumer Lending Law sets out the limits of penalties payable under consumer loan agreement in case of the borrower’s payment default. The penalty shall not exceed (i) 20% per annum, if the consumer loan agreement states that the interest continues to accrue on the overdue payment of the principal of the loan, or (ii) 0.1% per day, if the consumer loan agreement states that the interest stops accruing on the overdue amount of the principal of the loan, after the payment default of the borrower has occurred.

According to the Consumer Lending Law, the effective interest rate of the loan shall not exceed by more than one third the mid-market effective interest rate of the relevant category of consumer loans established by the CBR quarterly.

The mid-market effective interest rate is determined by the CBR 45 calendar days prior to each quarter during the course of which the relevant mid-market effective interest rate will be applicable for the purposes of limitation stipulated by the Consumer Lending Law. The CBR calculates the effective interest rate using weighted average rate of (i) not less than 100 largest lenders in respect of the relevant category of loan or (ii) not less than one third of all lenders in respect of the relevant category of loan. The latest value of the mid-market effective interest rate has been published by the CBR on 16 August 2016.

Bankruptcy (Insolvency) and Other Related Issues

Bankruptcy of credit organisations in Russia is governed by Federal Law No. 127-FZ “On Bankruptcy” dated 26 October 2002, as amended (the “**Bankruptcy Law**”), particularly Chapter 4.1 “Bankruptcy of Credit Organisations”.

Bankruptcy

Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the CBR of its banking licence. Following the revocation of the bank's licence, inter alia, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations, except for a limited number of current and settlement transactions and operations listed in the Banking Law, until the liquidator or the competition manager is appointed.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has "signs" of insolvency, as described in the Bankruptcy Law; the overall amount of the outstanding obligations is not less than RUB100,000; the bank has failed to perform such obligations within 14 days of their due date; or after the revocation of the bank's licence its total assets do not cover all of its outstanding obligations.

Prior to the institution of bankruptcy proceedings, the CBR, on its own initiative or upon the application of the authorised body of the bank, has the right to take action aimed at preventing the bank's bankruptcy. Such action may include (a) financial rehabilitation of the bank (for example, financial support, changing the structure of assets and liabilities or organisational structure of the bank), (b) appointment of a temporary administration to the bank or (c) reorganisation.

Temporary Administration

Temporary administration, which is aimed at the financial rehabilitation of a bank. Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the CBR in certain negative financial circumstances set out in Article 189.26 of the Bankruptcy Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios and a bank's failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficient funds in its correspondent accounts.

The introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of a bank. The temporary administration can manage a bank and is further entitled to request that the CBR impose a three month moratorium on all payments of a bank to counterparties and creditors. The temporary administration may also refuse performance of agreements or challenge transactions under Articles 27 and 189.40 of the Bankruptcy Law.

Priority of Claims

Under the Bankruptcy law, claims of unsecured creditors against Russian banks are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements, certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment related obligations and royalties. There is also a small risk that claims of unsecured creditors may be further subordinated to claims under certain tax and mandatory payment obligations to the Russian Government, although the Bankruptcy Law ranks such claims equally. Furthermore, unsecured claims are also effectively subordinated to claims secured by a Russian law pledge. Under the Bankruptcy Law, claims of creditors secured by a Russian law pledge are settled with the money received from the sale of pledged assets. Claims of creditors secured by a Russian law pledge remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors after the obligations mentioned above, irrespective of the time of the creation of such claims.

Recent amendments to the Bankruptcy Law provide that the proceeds from the sale of the pledged assets will be used as follows: (a) 70% (or 80% if the pledge secures a credit agreement) to satisfy secured claims; (b) 20% (or 15% if the pledge secures a credit agreement) to satisfy claims of creditors of the first and second priorities, provided the debtor's other property is insufficient to satisfy such

claims; and (c) the remaining amount to cover court expenses, remuneration to a bankruptcy manager and related expenses. Any obligations of creditors secured by a pledge remaining unsatisfied following the sale of the pledged assets would be ranked as claims of unsecured creditors.

Liquidation and Revocation of the Banking Licence

Mandatory Liquidation

The procedure for the revocation of banking licences and liquidation of banks is regulated by the Banking Law. See “—*Regulation — Licensing*” above.

Upon the revocation of its licence, a bank must be liquidated either under mandatory solvent liquidation procedures set out in the Banking Law or under bankruptcy procedures set out in the Bankruptcy Law.

Article 20 of the Banking Law establishes the consequences of the revocation of the banking licence, including that the CBR must impose a “temporary administration” on the relevant bank, that all obligations of the bank are deemed to have fallen due, that enforcement of execution documents issued on the basis of court judgments, with certain exceptions, is suspended and that entering into transactions and performance by the bank of its obligations is prohibited until the liquidator or the competition manager is appointed.

The CBR must make a public announcement of the revocation of the banking licence within one week of resolving to revoke such a licence.

Voluntary Liquidation

In the case of voluntary liquidation of a bank, the shareholders (founders), upon the adoption of the relevant decision, must apply to the CBR for cancellation of the banking licence and, upon its cancellation, the liquidation should be carried out in accordance with the liquidation rules and applicable CBR regulations. In particular, shareholders will appoint the liquidation commission to oversee the liquidation process.

Banking and Other Relevant Reforms

Following the 1998 financial crisis, Russian banks took important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by the substantial growth in the volume of private deposits in Russian banks.

On 17 March 2011, the Russian Government and the CBR issued their joint Strategy. The Strategy replaced the five year Strategies for the Development of the Banking Sector in the Russian Federation issued in December 2001 and April 2005, and set out an action plan for the facilitation of the development of the Russian banking sector up to 2015.

Among other things, the Strategy outlined the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also listed measures, which should be implemented to achieve these targets.

The system of the insurance of private deposits was introduced in 2003. According to the Deposit Insurance Law, banks holding a CBR licence for attracting deposits from individuals and opening and administering individuals’ accounts qualify for such activities. Subject to a bank’s compliance with certain regulatory requirements, it enters the system of the insurance of individuals’ deposits and thus qualifies to receive deposits and open accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from receiving deposits and opening accounts for individuals. Banks accepting private deposits and opening

accounts for individuals are required to make quarterly payments to the insurance fund in the amount of up to 0.15% of the average account balances calculated under the law.

Under the Deposit Insurance Law, the protection for each individual is limited to RUB1,400,000 per bank and banks are required to make quarterly payments into a deposit insurance fund. The previous protection threshold was RUB700,000. This threshold was increased by the Federal Law No. 451-FZ “On Amending Article 11 of the Federal Law “On Retail Deposit Insurance” and Article 46 of the Federal Law “On the Central Bank” dated 29 December 2014. The insurance payment from the deposit insurance fund will be payable to depositors if a bank’s licence has been revoked or if the CBR has imposed a moratorium on payments by the bank. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail deposits. Standard contribution premiums cannot exceed 0.12% of the contribution basis. In certain circumstances, the premium can be increased up to 0.3% of the contribution basis, but not for more than two quarters in every 18 months. When the size of the insurance fund reaches 5% of total retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05% of the contribution basis, and when the size of the insurance fund exceeds 10% of all Russian banks’ retail deposits, no contributions need to be made, but they resume once the insurance fund falls below the 10% threshold.

On 30 December 2004, the President signed Federal Law No. 218-FZ “On Credit Histories” (the “**Credit Histories Law**”). Most of the provisions of the Credit Histories Law came into force on 1 June 2005. Pursuant to the Credit Histories Law, the “credit history” of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower’s performance under loan or credit arrangements and which are stored with a “credit history bureau” (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue “reports”, as defined in the Credit Histories Law). As at the date of Prospectus, the CBR had registered 18 credit history bureaus.

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorised users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- a borrower itself;
- banks or other legal entities which are users of such data (with the borrower’s consent);
- courts and, with the consent of a prosecutor general, certain enforcement agencies;
- the Central Credit History Catalogue administered by the CBR to allow the centralised search of all credit history data; and
- the Federal Service of Court Bailiffs.

Credit organisations are obliged to make their activities compliant with the Credit Histories Law within nine months of the date of its entry into force. Since 1 September 2005, banks have been required to enter into agreements with at least one credit history bureau and provide it, subject to the borrowers’ consent, with the relevant information relating to the borrowers.

In connection with the entry into force of the Credit Histories Law, amendments to the Banking Law, the Civil Code and to the Code of Administrative Offences were introduced in order to make them compliant with the Credit Histories Law. Specifically, these amendments address issues concerning bank secrecy, liability for unauthorised access to, and disclosure of, credit history data, and violation of the procedure for the collection, storage and processing of such data.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, Federal Law No. 152-FZ “On Mortgage Backed Securities” and amendments to the Civil Code, Tax Code and Federal Law No. 102-FZ “On Mortgage” were enacted in 2003/2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another intention of this new legislation is to introduce improved regulation of mortgage backed securities in order to make them more attractive for investors.

On 18 June 2004, the Currency Control Law came into force, replacing the former Federal Law “On Currency Regulation and Currency Control” of 1992 almost in its entirety. The Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Control Law, the CBR had the power to regulate certain currency operations (including non-banking operations performed by Russian banks) by introducing a “special account requirement”. As at 1 January 2007, the major remaining restrictions envisaged in the Currency Control Law (including the “special account requirement”) have been abolished.

As part of implementing legislation contemplated by the Currency Control Law, the CBR passed Directive No. 1425-U of 28 April 2004, which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorised banks and sets forth a list of non-banking transactions between authorised banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorised banks will fall under the general currency control regime applicable to resident legal entities.

The Rescue Measures Law

Federal Law No. 173-FZ dated 13 October 2008 “On Supplementary Measures to Support the Financial System of the Russian Federation”, as amended (the “**Rescue Measures Law**”) came into effect on 14 October 2008.

Under Article 4 of the Rescue Measures Law, Vnesheconombank is to receive deposits in the amount of up to RUB410 billion in the aggregate from the National Wealth Fund, which Vnesheconombank would use to provide unsecured subordinated loans to Russian banks. The availability period for such loans expired on 31 December 2010.

On 20 October 2008, the Supervisory Board of Vnesheconombank approved the “Procedure for implementation by Vnesheconombank of measures set out in Articles 4 and 6 of the Rescue Measures Law” which describes the measures implemented to provide additional liquidity to Russian banks through Vnesheconombank (the “**Procedure**”).

The Procedure lists certain eligibility criteria that a Russian bank must meet to qualify for Vnesheconombank financing, including a minimum credit rating of B- from Fitch or S&P’s and B3 from Moody’s, absence of outstanding tax liabilities at the federal or regional level and absence of CBR sanctions against the bank and some other criteria.

Chapter III of the Procedure sets out the key terms of Vnesheconombank loans, which include, inter alia, the requirement to appoint VEB representatives to the management bodies of the borrower upon VEB request.

The Securities Market Law

A banking licence does not authorise a credit organisation to act as a securities broker, dealer or forex dealer, registrar, securities manager or to provide custody services (other than acting as a paying agent). In order to perform these functions, according to Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Securities Market Law**”) a credit organisation must obtain a licence from the CBR. The operations of Russian banks in the securities market are subject to

Russian securities laws and regulations adopted by the CBR or its predecessors that govern the activities of brokers, dealers, forex dealers, securities managers, registrars and securities custodians, and the relations between professional market participants and investors. CBR also oversees the compliance of all professional market participants, including banks, with the Russian securities laws and regulations.

The Insider Dealing Law

The Insider Dealing Law generally came into force on 31 July 2011, save for the provisions relating to of criminal liability for unlawful use of insider information and revocation of a banking licence due to multiple instances of non-compliance with the Insider Dealing Law during one year. The Insider Dealing Law enumerates categories of persons that can be considered insiders, including, among others, issuers and management companies, as well as professional market participants (including brokers and dealers) and other persons who transact on behalf of their clients with financial instruments, foreign currency and/or goods, and have received insider information from such clients. Under the Insider Dealing Law, any person who illegally uses insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. Furthermore, insiders must comply with certain new disclosure requirements, including keeping the insiders list and sending notices of transactions by the insiders to the CBR and the relevant legal entities. In implementing the Insider Dealing Law and pursuant to CBR Regulation No. 2723-U of 31 October 2011, the CBR began to disclose certain information relating to Russian banks on its website, including: (1) the status and results of its inspections, (2) licence revocations, (3) cases of imposing an administrative liability upon a credit organisation and/or its sole executive body, (4) an invalidation of the CBR's approval for taking retail deposits and opening and maintaining bank accounts for individuals, and (5) stages of issuance of securities by banks.

The Deposit Insurance Law

The Deposit Insurance Law introduced a mandatory retail deposit insurance scheme for Russian banks that offer retail deposit services pursuant to a CBR licence. The Deposit Insurance Law prescribed the requirements for admission to the deposit insurance scheme, and compliance with these requirements was verified by the CBR on a case-by-case basis.

According to the State Deposit Insurance Agency, as at the date of Prospectus, 823 banks are participants to the deposit insurance scheme. A bank that does not participate in the deposit insurance scheme is not permitted to accept retail deposits or open accounts for individuals.

The Deposit Insurance Law guarantees each customer's deposit for up to RUB1,400,000 per bank. Insurance proceeds are payable from the retail deposit insurance fund into which participating banks must make quarterly contributions. An insurance payment from the deposit insurance fund becomes payable to depositors if the CBR revokes the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's contribution to the deposit insurance scheme is assessed based on the quarterly average of daily balances of its retail deposits (excluding bearer deposits). Standard contribution premiums cannot exceed 0.12% of the contribution basis. In certain circumstances, the premium can be increased up to 0.3% of the contribution basis, but not for more than two quarters in any 18-month period. When the size of the insurance fund exceeds 5% of all Russian banks' combined retail deposits, all subsequent contribution premiums cannot exceed 0.05% of the contribution basis. When the size of the insurance fund exceeds 10% of all Russian banks' combined retail deposits, no contributions will need to be made, but contributions must be resumed if the size of the insurance fund falls below 10% of the combined retail deposits.

Starting from 1 July 2015 the banks satisfying certain conditions are obliged to make additional contributions established by the State Deposit Insurance Agency. If a bank in a particular quarter has entered into any agreement with deposit rate exceeding the basic level of profitability by 2 to 3% such bank is subject to additional contribution. And the banks providing deposits with rates exceeding the

basic level of profitability by more than 3% must pay higher additional contributions. The basic level of profitability will be established by the CBR every month by determination of the average rate calculated on the basis of the highest deposit rates offered to unlimited range of depositors by the banks holding, in aggregate, two thirds of retail deposits in the Russian Federation.

The Deposit Insurance Law provides for the establishment of a new regulator, the State Deposit Insurance Agency, which, among other things, collects fund contributions, manages the fund, calculates insurance premiums and monitors insurance payments. The Deposit Insurance Agency maintains a register of all banks that hold a retail banking licence.

The National Payment System Law

For the purposes of development and modernisation of the Russian banking sector and financial market, in light of establishment of International Financial Centre in Russia Federal Law No. 161-FZ “On the National Payment System” dated 27 June 2011 (the “**National Payment System Law**”) was adopted. The National Payment System Law generally came into force on 29 September 2011 with some provisions entering into force later in 2012.

The National Payment System Law sets out legal and administrative basis of the national payment system, regulates the procedure of rendering payment services, including the performance of the transfer of monetary resources, the employment of the electronic means of payment, the activity of the participants of the national payment system, as well as determines the requirements of the organisation and functioning of payment systems, the procedure of the supervision and observation in the national payment system.

The National Payment System Law provides, *inter alia*, that a bank may act as an operator of the transfer of monetary funds, including operator of the electronic monetary resources and an operator of the payment system.

The National Payment System Law envisages that the CBR performs the function of supervision over the functioning of the national payment system. To that end, the CBR is vested, among other things, with the following powers with respect to the participants of payment systems and/or other entities falling under the CBR’s supervision: (i) to inspect the documents and information relating to such entities; (ii) conduct scheduled and extraordinary audits; (iii) impose sanctions or other actions.

The Central Depository Law

Federal Law No. 414-FZ “On the Central Depository”, as amended (the “**Central Depository Law**”), which generally came into force on 1 January 2012, provides legal framework for establishment, and operational conditions, of the central depository, in particular, setting out rights and obligations of the central depository, requirements to its activities and specifics of the state control and supervision over its activities. The Central Depository Law aims at improving effectiveness and competitiveness of Russian stock market, including, expediting and facilitating securities trade settlements and mitigating the risks associated therewith. Under this law, the central depository is defined as a depository that is a non-banking credit organisation (“**NCO**”), to which the status of the central depository has been assigned. Only a joint-stock company registered in Russia can be the central depository. Pursuant to the Central Depository Law, the central depository (within one year from the date of assignment of its status) shall take all necessary steps in order to open its nominal holder accounts, in particular, in all securities registers of issuers obliged to disclose information in accordance with the Securities Market Law. Also, the Central Depository Law prohibits persons maintaining securities registers from opening, and depositing securities to, other nominal holder accounts from the opening date of a nominal holder account of the central depository. On 6 November 2012, CJSC NCO “National Settlement Depository” was assigned the central depository status by Order of the FSFM No. 12-2761/PZ-I.

Accession of Russia to the WTO

On 16 December 2011, Russia signed the Protocol on its accession to the WTO. The ratification procedures were completed in July 2012, and the accession to the WTO became effective for Russia on 22 August 2012. Upon the Protocol's entry into force, Russia became subject to the WTO regime. However, in relation to its banking sector, Russia made a reservation that it would review market access requirements for the establishment of branches of foreign banks and securities firms in the context of future negotiations on the accession of Russia to the OECD or within the framework of the next round of the WTO multilateral trade negotiations. As at the date of this Prospectus, the CBR allows foreign banks either (i) to incorporate a subsidiary bank in Russia regulated by the CBR or (ii) to maintain a representative office in Russia. A subsidiary of a foreign bank is an entity operational within the scope of its banking licence, which must comply with Russian laws and CBR regulations (including on mandatory CBR ratios), while activities of a representative office are limited to facilitating banking operations and representing interests of its foreign parent. At present, a foreign bank may set up a subsidiary or representative office in Russia, subject to obtaining the CBR licence or accreditation and provided that, among other matters, the parent bank has a good reputation and is in good financial standing in its home country.

The accession of Russia to the WTO is also expected to necessitate unification of requirements applicable to private banks, banks under state control and foreign-controlled banks, including, among other things, abolishing some Russian law provisions that may be deemed discriminatory against foreign-owned banks in favour of banks controlled by Russian nationals or the state. At the same time, Russia managed to keep a limit on an overall amount of foreign investments into the banking sector of Russia post-accession, which shall not exceed 50% of the total equity capital of all credit organisations registered in Russia. If the threshold is exceeded, the CBR will have a right (i) not to authorise new foreign investments in the banking sector, and/or (ii) to impose a temporary ban on disposal of banks' equity capital to foreign investors, including, inter alia, through an increase of equity capital at the account of a foreign investor.

Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities since October 2008

Since October 2008, the Russian Government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures are set out below:

- The Russian Government through the CBR and Vnesheconombank may provide up to RUB910 billion in subordinated loans to State-owned and private banks under certain conditions. The RUB910 billion state contribution to banking sector capital in the form of long-term subordinated loans is one of the key economic initiatives announced by the Russian Government to restore confidence in the Russian banking sector. State-owned banks such as Sberbank, VTB and Russian Agricultural Bank received RUB500 billion, RUB200 billion and RUB25 billion, accordingly, as part of this initiative. The remaining amount has been distributed among privately-owned Russian banks subject to certain conditions.
- On the basis of special resolutions of the Russian Government the funds repaid by the banks as borrowers under the subordinated loan agreements may be used for purchasing preferred shares of such banks.
- The CBR was authorised to enter into agreements with privately owned banks to partially compensate such banks for the losses suffered during the period from 14 October 2008 to 31 December 2010 as the result of operations on the interbank market with banks whose licences are revoked. Vnesheconombank had the right, until 31 December 2009, to originate foreign

currency loans up to U.S.\$ 50 billion to Russian legal entities to repay and/or refinance the loans received from foreign lenders prior to 25 September 2008.

- In October 2008, the CBR temporarily decreased the reserve requirements for banks to 0.5 per cent. for all types of financial obligations (prior to the decrease, the reserve requirements for banks were 4.5 per cent. for financial obligations to non-resident banks, 1.5 per cent. for financial obligations to individuals and 2.0 per cent. for all other financial obligations).
- The Russian Government has increased the insurance coverage for retail deposits to RUB 1,400,000.
- The Russian Government has pledged RUB500 billion to stabilise the financial markets, out of which Vnesheconombank, a state-owned bank, has received RUB250 billion to implement measures to support the Russian financial markets. In November 2008, Vnesheconombank received a contribution of RUB75 billion to its charter capital to help stabilise the repo market. The remaining RUB175 billion was deposited with Vnesheconombank and partially used to support the Russian debt and equity markets.
- The State Deposit Insurance Agency added 27 Russian banks to a short list of banks which received an aggregate of RUB830 billion as additional support from the state in the form of Federal loan bonds (OFZ) in the amount equal to 25 per cent. of their capital (own funds) transferred to such banks on a *pro rata* basis.
- Federal Law No. 317-FZ “On Amending Articles 46 and 76 of the Federal Law on Central Bank of Russian Federation (Bank of Russia)” dated 30 December 2008 vested the CBR with the right to appoint its authorised representatives to the banks and credit institutions which, inter alia, have received any foreign currency loans and/or subordinated loans under the Rescue Measures Law. The CBR Regulation No. 2182-U dated 9 February 2009 provides for the procedure for such authorised representatives appointment, their rights and obligations including, inter alia, the right to participate in the meetings of the management bodies of such banks and credit institutions and the right to request information on management remuneration and the issuance of loans to third parties.
- CBR Regulation No. 2092-U “On Determination of Mandatory Reserve Requirements of the Bank of Russia” dated 14 October 2008 temporarily decreased the reserve requirements for all types of financial obligations, namely funds in Roubles and foreign currencies payable to non-resident banks, funds in Roubles payable to individuals and other obligations, to 0.5% from 4.5%, 1.5% and 2%, respectively. However, CBR Regulation No. 2582-U dated 25 February 2011 “On Determination of Mandatory Reserve Requirements of the Bank of Russia” increased these reserve requirements from 1 March 2011 to 4.5%, 3.5% and 3.5%, respectively. Pursuant to CBR Regulation No. 2601-U dated 25 March 2011 “On Determination of Mandatory Reserve Requirements of the Bank of Russia”, from 1 April 2011 reserve requirements for the banks’ obligations to individuals and other obligations in Roubles or foreign currency have been increased to 4.0% and reserve requirements for the banks’ obligations to non-resident legal entities in Roubles or foreign currency have been increased to 5.5%. Furthermore, under CBR Regulation No. 2970-U “On Determination of Mandatory Reserve Requirements of the Bank of Russia”, from 1 March 2013 reserve requirements have been increased to 4.25% and 5.25% for banks’ obligations to individuals in Roubles or foreign currency, respectively, to 4.25% or 6.25% for banks’ other obligations in Roubles or foreign currency, respectively, and to 4.25% or 6.25% for banks’ obligations to non-resident legal entities in Roubles or foreign currency, respectively. On 1 August 2016, the mandatory reserves requirements for the obligations of credit organisations were increased by 0.75% for all categories of obligations.

- Government Decree No. 18 “On the Procedure of National Welfare Fund Assets Management” was amended in 2008 and 2009 to increase the scope of financial instruments in which funds from the National Welfare Fund can be invested. The National Welfare Fund was established in 2008 using oil revenues, with a view to partially funding contributions to pensions of Russian citizens and to make up shortfalls in other contributions from the federal budget to federal pension funds. As a consequence, up to RUB955 billion of such funds may be deposited in Vnesheconombank to support the Russian financial markets.
- The number of instruments eligible for the CBR’s collateralised facility and for refinancing transactions with the CBR has been increased and the CBR may accept, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations.

THE ISSUER

General

CBOM Finance p.l.c. was incorporated in Ireland on 22 August 2006, with registered number 425241, as a public limited company under the Companies Acts 1963-2005 (as amended) of Ireland. The registered office of the Issuer is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland and its telephone number is +353 1 905 8020.

The authorised share capital of the Issuer is EUR40,000 divided into 40,000 ordinary shares of par value EUR1 each (the “**Shares**”). The Issuer has issued 40,000 Shares, which are fully paid and are held on trust under the terms of a declaration of trust (the “**Declaration of Trust**”) dated 11 September 2006, under which the Shares are held on trust for charity. Cafico Trust Company Limited (the “**Share Trustee**”) became the Share Trustee on 12 October 2016, replacing Deutsche International Finance (Ireland) Limited. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Cafico Corporate Services Limited (the “**Corporate Services Provider**”), an Irish company, acts as the corporate services provider for the Issuer. The Corporate Services Provider replaced Deutsche Corporate Services (Ireland) Limited on 12 October 2016. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 12 October 2016 between the Issuer and the Corporate Services Provider (the “**Corporate Services Agreement**”), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days’ written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary. The Corporate Services Provider’s principal office is Palmerston House, Fenian Street, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 3 of its Memorandum of Association (as currently in effect) and permit the Issuer, inter alia, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to CBM.

Since its incorporation and prior to the issuance of the Notes, the Issuer has not engaged in any material activities other than the issue of loan participation notes for the sole purpose of funding senior or subordinated loans to CBM. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the board of directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer are Enda Kelly and Thomas O'Beirne.

The business address of the Directors is at: 2nd Floor Palmerston House, Fenian Street, Dublin 2, Ireland.

The Company Secretary is Cafico Secretaries Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement. The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Financial Statements

The Issuer published its most recent financial statements in respect of the financial year ending on 31 December 2016. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account, the financial statements of the Issuer and balance sheet can be obtained free of charge from the registered office of the Issuer.

The Issuer has appointed Grant Thornton, 24-26 City Quay, Dublin 2, Ireland as its auditors, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

SUBORDINATED LOAN AGREEMENT

The following is the text of the Subordinated Loan Agreement which has been entered into between CBM and the Issuer:

THIS SUBORDINATED LOAN AGREEMENT is made on 3 April 2017

BETWEEN:

- (1) **CREDIT BANK OF MOSCOW (public joint-stock company)**, a commercial bank organised as a public joint-stock company established under the laws of the Russian Federation whose registered office is at 2 (Building 1) Lukov Pereulok, Moscow 107045, Russian Federation, as borrower (the “**Borrower**”); and
- (2) **CBOM Finance p.l.c.**, a public limited company incorporated under the laws of Ireland whose registered office is at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland and registered under number 425241, as lender (the “**Lender**” which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Trust Deed).

WHEREAS

- (A) The Lender has, at the request of the Borrower, agreed to make available to the Borrower a subordinated loan in the amount of U.S.\$600,000,000 on the terms and subject to the conditions of this Agreement.
- (B) The Lender and the Borrower have agreed that, on the occurrence of a Bankruptcy Event (as defined below), the claims of the Lender in respect of the principal amount of, and interest on, the Subordinated Loan (as defined below) and any applicable Monetary Damages (as defined below) shall be subordinated to the claims of the Senior Creditors (as defined below) of the Borrower in accordance with the Insolvency Law (as defined below) and this Agreement.
- (C) The Borrower intends the Subordinated Loan to be qualified as Tier 2 Capital (as defined below) under Regulation No. 395-P (as defined below).
- (D) The Lender and the Borrower have agreed that the terms and conditions set forth in this Agreement, including the Rate of Interest payable in respect of the Subordinated Loan and the terms and conditions of the reset of the Rate of Interest on the Reset Interest Determination Date, do not differ materially from the terms and conditions of similar agreements concluded on market terms as of the date of this Agreement.

NOW IT IS HEREBY AGREED as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following expressions have the following meanings:

“**Acceleration Event**” has the meaning assigned to such term in Clause 14.3 (*Notice of Acceleration Event*) hereof;

“**Account**” means the account with account number 18437963 of the Lender with the Principal Paying Agent;

“**Affiliate**” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person or (ii)

any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) or (ii) above. For the purposes of this definition, “**control**” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing;

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory Person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Agency Agreement**” means the agency agreement (as amended, varied or supplemented from time to time) to be dated 3 April 2017, with the agents named therein (the “**Agents**”, which expression shall include any successor Agent(s) appointed from time to time in connection with the Notes), the Borrower and the Trustee;

“**Agreed Form**” means that the form of the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree prior to the Closing Date;

“**Agreement**” means this Agreement as originally executed or as it may be amended or supplemented from time to time;

“**Approval Date**” means the date falling 90 days after the date of this Agreement;

“**Auditors**” means the auditors of the Borrower’s IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose, such approval not to be unreasonably withheld;

“**Authorised Signatory**” means, in relation to the Borrower, any Person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director of the Borrower setting out the name and signature of such Person and confirming such Person’s authority to act;

“**Bankruptcy Event**” means the entry into force of a final decision of a competent Russian court finding the Borrower bankrupt;

“**Base Capital**” means the base capital (*bazovyi capital*) of the Borrower as referred to in Regulation No. 395-P;

“**Base Capital Adequacy Ratio**” means the Borrower’s base capital adequacy ratio (*normativ dostatochnosti bazovogo kapitala*) (N1.1) as determined by the Borrower pursuant to Instruction No. 139-I (as defined below);

“**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets generally are open for business in Moscow, New York, London, Dublin and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

“**Calculation Agent**” means such Person as may be at any time appointed in accordance with the Agency Agreement as the relevant party responsible for calculating the 5-year Mid-Swap Rate (as defined below), if applicable;

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated)

of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

“**CBR**” means the Central Bank of the Russian Federation or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR;

“**Closing Date**” means, subject to clause 11.2 (*Postponed Closing*) of the Subscription Agreement, 5 April 2017;

“**Conditions**” means the terms and conditions of the Notes, as set out in the Trust Deed and all references to a numbered “Condition” are to the corresponding provision thereof;

“**Deposit Insurance Agency**” means the State Corporation Deposit Insurance Agency established on the basis of Federal Law No. 177-FZ “On the Insurance of Household Deposits in Banks of the Russian Federation” dated 23 December 2003 (as amended, supplemented or superseded from time to time) or such other governmental or other authority as shall from time to time carry out functions in relation to deposit insurance in the Russian Federation as are, on the date hereof, carried out by the Deposit Insurance Agency;

“**Early Repayment Date**” has the meaning given to it in Clause 7.5 (*Prepayment at the option of the Borrower*);

“**Facility Fee**” has the meaning assigned to such term in Clause 2.3 (*Facility Fee and Other Costs*) hereof;

“**Fee Side Letters**” means the Upfront Fee Side Letter and the Ongoing Fee Side Letter;

“**Final Conclusion**” means the final written conclusion (*podtverzhdenie*) of the CBR confirming the final unconditional approval by the CBR of this Agreement and the Subordinated Loan as a subordinated loan eligible for inclusion into own funds (capital) of the Borrower as Tier 2 Capital;

“**Finance Documents**” means this Agreement and any other agreements and deeds relating to the Subordinated Loan and/or issuance of the Notes, including the Subscription Agreement;

“**Fiscal Period**” means any fiscal period for which the Borrower or the Group (if consolidated accounts are then prepared) has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

“**Group**” means the Borrower and its consolidated Subsidiaries from time to time taken as a whole;

“**IFRS**” means the International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

“**Indebtedness**” means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation:

- (a) any amount raised by acceptance under any acceptance credit facility;
- (b) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

- (c) any amount owed pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder;
- (d) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing;
- (e) the amount of any liability in respect of any guarantee or indemnity for any of the items referred in (a) to (d) above;
- (f) all indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such indebtedness is assumed by such Person;
- (g) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto); and
- (h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, in respect of all conditional obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

“Insolvency Law” means Federal Law No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October 2002 (as amended, supplemented or superseded from time to time);

“Instruction No. 139-I” means the CBR Instruction No. 139-I “On mandatory ratios of banks” dated 3 December 2012 (as amended, supplemented or superseded from time to time);

“Interest Cancellation” has the meaning set out in Clause 8.2 (*Write Down Event*);

“Interest Cancellation Amount” means all or such part of the amount of the interest accrued to (but excluding) the Write Down Event Date that is determined by the Borrower as necessary to be cancelled (in conjunction with any interest cancellation measures taken in respect of Write Down Instruments) in accordance with Clause 8.2 (*Write Down Event*);

“Interest Cancellation Measure” has the meaning given to it in Clause 8.2 (*Write Down Event*);

“Interest Payment Date” means 5 April and 5 October of each year, commencing on 5 October 2017 and ending on 5 October 2027;

“Interest Period” means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date (or in the case of the first Interest Period, the first Interest Payment Date);

“Irish Stock Exchange” means the Irish Stock Exchange plc;

“Lien” means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease having a similar

effect, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person;

“Material Adverse Effect” means a material adverse effect on the:

- (a) business, results of operations, property, condition (financial or otherwise) or immediate prospects of the Borrower or the Group taken as a whole;
- (b) Borrower’s ability to perform or comply with its obligations under this Agreement, the Agency Agreement or the Subscription Agreement; or
- (c) validity or enforceability of this Agreement, the Agency Agreement or the Subscription Agreement or the rights or remedies of the Lender thereunder;

“Material Subsidiary” means any Subsidiary of the Borrower:

- (a) which has gross income representing 10 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or
- (b) which has total assets representing 10 per cent. or more of the consolidated total assets of the Group; or
- (c) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction),

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied;

“Moscow Business Day” means a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets generally are open for business in Moscow;

“Monetary Damages” means any amount of financial damages (*finansoviye sankcii*) which the Borrower may become liable to pay for failure to perform its obligations under this Agreement;

“Monetary Damages Cancellation” has the meaning given to it in Clause 8.2 (*Write Down Event*);

“Monetary Damages Cancellation Amount” means all or such part of the amount of Monetary Damages, if any, accrued to (but excluding) the Write Down Measure Effective Date that is determined by the Borrower as necessary to be cancelled (in conjunction with any equivalent cancellation measures taken in respect of Write Down Instruments) in accordance with Clause 8.2 (*Write Down Event*);

“Monetary Damages Cancellation Measure” has the meaning given to it in Clause 8.2 (*Write Down Event*);

“Noteholder” means, in relation to a Note, the Person in whose name such Note is, for the time being, registered in the register of Noteholders (or, in the case of joint holders, the first named holder thereof) and **“Noteholders”** shall be construed accordingly;

“Notes” means the U.S.\$600,000,000 7.50 per cent. loan participation notes due 2027 proposed to be issued by the Lender (in its capacity as issuer of such Notes) and constituted by the Trust Deed;

“Officer’s Certificate” means a certificate signed on behalf of the Borrower by an authorised officer of the Borrower who shall be a principal executive officer, principal accounting officer or principal financial officer of the Borrower;

“Ongoing Fee Side Letter” means a side letter dated the date hereof between, inter alios, the Trustee, the Lender and the Borrower;

“Operational Day” means a day when the Borrower’s registered office is open for business and all operations during that day are reflected in the Borrower’s daily balance sheet;

“Original Financial Statements” means the audited consolidated financial statements of the Group for the year ended 31 December 2016, prepared under IFRS;

“outstanding” means, with respect to the Subordinated Loan, such portion of the Subordinated Loan that has not previously been paid, repaid or written down and cancelled;

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any Agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

“Prepayment Date” means any date on which the Subordinated Loan is to be prepaid pursuant to any of the provisions of Clauses 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*) or 7.6 (*Special Prepayment in the Event of Taxes or Increased Costs*), if applicable;

“Principal Paying Agent” means Citibank, N.A., London Branch;

“Principal Write Down Measure” has the meaning given to it in Clause 8.2 (*Write Down Measures*);

“Prospectus” means the final prospectus dated 3 April 2017 prepared in connection with the offering and issue of the Notes (which expression includes, where the context permits, any amendment or supplement to the Prospectus published by or with the consent of the Lender);

“Qualifying Jurisdiction” means any jurisdiction which has a double taxation treaty with the Russian Federation under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the Lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto;

“Rate of Interest” has the meaning assigned to such term in Clause 6.1 (*Rate of Interest*);

“Regulation No. 395-P” means the CBR Regulation No. 395-P “On the methodology of determination of the amount of own funds (capital) of credit organisations (Basel III)” dated 28 December 2012 (as amended, supplemented or superseded from time to time);

“Repayment Date” shall have the meaning assigned to such term in Clause 7.1 (*Repayment*);

“Reset Interest Determination Date” means the third Business Day immediately preceding the Early Repayment Date

“Reset Margin” means 5.416 per cent.;

“Reset Rate of Interest” means the rate per annum equal to the aggregate of: (a) the Reset Margin and (b) the 5-year Mid-Swap Rate, as determined by the Calculation Agent on the Reset Interest Determination Date;

“Reset Reference Bank Rate” means the percentage rate determined on the basis of the 5-year Mid-Swap Rate quotations provided by the Reset Reference Banks to the Calculation Agent at approximately 12:00 p.m. (New York City time) on the Reset Interest Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be 2.084 per cent. per annum;

“Reset Reference Banks” means five leading swap dealers in the New York City interbank market as selected by the Calculation Agent after consultation with the Lender;

“Same-Day Funds” means U.S. dollars funds settled through the cash settlement centre of the CBR or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in Moscow of the type contemplated hereby;

“Screen Page” means Reuters screen “ISDAFIX1” or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate;

“Senior Creditors” means all creditors of the Borrower other than (i) creditors of the Borrower whose claims are in respect of the Borrower’s Capital Stock in their capacity as shareholders or (ii) creditors of the Borrower whose claims rank equally with or are subordinated to the claims of the Lender under this Agreement pursuant to Russian law or pursuant to an agreement (to the extent permitted by Russian law);

“Subordinated Loan” means at any time, an amount equal to the aggregate principal amount of the subordinated loan advanced by the Lender pursuant to this Agreement and outstanding at such time;

“Subscription Agreement” means the subscription agreement dated 3 April 2017 between, *inter alios*, the Lender, the Borrower and the Joint Lead Managers, providing for the issuance and subscription of the Notes;

“Subsidiary” of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired:

- (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or
- (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named Person or any of its Subsidiaries has the power, by contract or otherwise, to direct or cause the direction of the management, policies and affairs of such entity if (in each case) in accordance with IFRS, as consistently

applied, such entity would be consolidated with the first-named Person for financial statement purposes; or

- (c) any limited partnership of which such Person or any Affiliate of such Person is a general partner;

“Taxes” means any present or future tax (including interest, penalties and other liabilities related thereto) imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any tax authority thereof or therein or any other jurisdiction through which the Borrower is directed by the Lender to effect payments, provided, however, that for the purposes of this definition references to Ireland shall, upon the occurrence of a Relevant Event (as defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is resident for tax purposes; and the term “Taxation” shall be construed accordingly;

“Tier 2 Capital” means additional capital (*dopolnitelny kapital*) of the Borrower as referred to in Regulation No. 395-P;

“Trust Deed” means the trust deed to be dated 5 April 2017 between the Lender and the Trustee to constitute the Notes for the equal and rateable benefit of the Noteholders (as may be amended or supplemented from time to time);

“Trustee” means Citibank, N.A., London Branch, as trustee under the Trust Deed and any successor thereto as provided thereunder;

“Upfront Fee Side Letter” means a side letter dated the date hereof between, *inter alios*, the Lender and the Borrower;

“U.S. dollars” and **“U.S.\$”** mean the lawful currency of the United States of America;

“Voting Stock” means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof;

“Write Down Amount” has the meaning assigned to such term in Clause 8.2 (*Write Down Event*) hereof;

“Write Down Event” shall be deemed to occur if: (i) the Base Capital Adequacy Ratio falls below 2.0 per cent. for six or more Operational Days in aggregate during any consecutive period of 30 Operational Days, or (ii) the Banking Supervision Committee of the CBR approves a plan for the participation of the Deposit Insurance Agency in bankruptcy prevention measures in respect of the Borrower which contemplates the provision of financial assistance by the Deposit Insurance Agency in accordance with the Insolvency Law (the **“Agency Trigger”**);

“Write Down Event Date” means the date of disclosure of the occurrence of a Write Down Event on the official website of the CBR (as of the date of this Agreement, <http://www.cbr.ru/>);

“Write Down Event Notice” has the meaning assigned to such term in Clause 8.1 (*Notice*) hereof;

“Write Down Instruments” means any obligation (other than the Subordinated Loan) incurred directly or indirectly by the Borrower which (a) in the case of a Bankruptcy Event ranks or is expressed to rank *pari passu* with the Subordinated Loan; (b) is subordinated debt which qualifies as Tier 2 Capital of the Borrower and (c) contains provisions analogous to those in Clause 8.2 (*Write Down Event*) relating to cancellation of interest and monetary damages and a write down of the principal amount of such instrument or which otherwise

permit or require the cancellation of interest and monetary damages and write down of such instrument and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Borrower, would be) satisfied;

“**Write Down Measure**” has the meaning assigned to such term in Clause 8.2 (*Write Down Event*) hereof;

“**Write Down Measure Effective Date**” means the date as of which the Write Down Measures become effective, which is specified in the Write Down Measure Notice and which shall occur on the earlier of the 30th Moscow Business Day after the Write Down Event Date, or the date preceding the date on which the Deposit Insurance Agency starts implementing bankruptcy prevention measures in accordance with the Insolvency Law; and

“**Write Down Measure Notice**” has the meaning assigned to such term in Clause 8.1 (Notice) hereof;

“**5-year Mid-Swap Rate**” means:

- (a) the mid-swap rate for U.S. dollar swaps with a term of five years which appears on the Screen Page at 11:00 a.m. (New York City time) on the Reset Interest Determination Date; or
- (b) if the 5-year Mid-Swap Rate does not appear on the Screen Page at such time on the Reset Interest Determination Date, the Reset Reference Bank Rate.

1.2 Other Definitions

Unless the context otherwise requires;

- (a) terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein;
- (b) all references to “**taxes**” include all present or future taxes, levies, imposts, charges, withholdings and duties of any nature and the terms “**tax**” and “**taxation**” shall be construed accordingly;
- (c) a “**month**” is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to “**months**” shall be construed accordingly);
- (d) the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page; and
- (e) the term “**repay**” (or any derivative form thereof) shall, subject to any contrary indication, be construed to mean “**prepay**” (or, as the case may be, the corresponding derivative form thereof).

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- (a) all references to “**Clause**” or “**sub-Clause**” or “**paragraph**” are references to a Clause or sub-Clause or paragraph of this Agreement;
- (b) the terms “**hereof**”, “**herein**” and “**hereunder**” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;
- (c) the “**Lender**” or the “**Borrower**” shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests;
- (d) the table of contents and the headings are for convenience only and shall not affect the construction hereof;
- (e) “**or**” is not exclusive;
- (f) any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted;
- (g) provisions apply to successive events and transactions; and
- (h) an accounting term not otherwise defined has the meaning assigned to it in accordance with IFRS.

1.4 Amended Documents

Except where the contrary is indicated, any reference in this Agreement to “this Agreement” or any other agreement or shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated, supplemented or replaced.

2. Subordinated Loan

2.1 Subordinated Loan

On the terms and subject to the conditions of this Agreement and subject to the terms and conditions in the Subscription Agreement, the Lender hereby agrees to make available to the Borrower, and the Borrower hereby agrees to borrow from the Lender, a subordinated loan in the principal amount of U.S.\$600,000,000.

2.2 Purpose

The proceeds of the Subordinated Loan will be used by the Borrower for its general banking purposes, but the Lender shall not be concerned with the application thereof.

2.3 Facility Fee and Other Costs

In consideration of the Lender agreeing to advance the Subordinated Loan to the Borrower, the Borrower shall pay (a) a fee of U.S.\$2,098,148.60 to the Lender in connection with the provision of the Subordinated Loan (the “**Facility Fee**”) and (b) certain costs and expenses which may arise and which are referred to under the Upfront Fee Side Letter between the

Lender, the Borrower and the other parties thereto (the “**Other Costs**”), by way of an additional facility fee.

3. Drawdown

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, the Lender shall make the Subordinated Loan available to the Borrower on the Closing Date and the Borrower shall make a single drawdown in the full amount of the Subordinated Loan (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other Costs*)).

3.2 Payment of Facility Fee and Other Costs

In consideration of the Lender’s undertaking to make the Subordinated Loan available to the Borrower, the Borrower hereby agrees that it shall pay:

- (a) the Facility Fee to the Lender in Same-Day Funds by 12.00 noon (New York time) one Business Day prior to the Closing Date; and
- (b) the Other Costs set out in, and in the manner described in, the Upfront Fee Side Letter.

If the Lender has not received from the Borrower by 12.00 noon (New York time) one Business Day prior to the Closing Date an amount in U.S. dollars in payment of the Facility Fee and Other Costs, then the Facility Fee and Other Costs shall be deducted from the amount of the Subordinated Loan.

3.3 Disbursement

Subject to the conditions set forth in this Agreement, the Lender shall transfer the amount of the Subordinated Loan (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other Costs*)) on the Closing Date to the Borrower’s account designated:

Bank: Citibank N.A.
SWIFT: CITIUS33
Account Name: CREDIT BANK OF MOSCOW
Account Number: 36940272

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) agreeing to make the Subordinated Loan to the Borrower, and (ii) making available and supporting such a continuing Subordinated Loan, the Borrower shall pay on demand to the Lender from time to time, by way of an additional facility fee, an amount equating to all ongoing fees, commissions, taxes and reasonable costs properly incurred by the Lender (including, without limitation, listing fees and expenses, audit fees and expenses, taxes, legal fees, corporate service provider fees and the anticipated winding up expenses of the Lender) as set forth in the Ongoing Fee Side Letter. For the avoidance of doubt, this Clause 3.4 (*Ongoing Fees and Expenses*) shall survive the termination of this Agreement.

4. Subordination

4.1 Subordination

The claims of the Lender against the Borrower under this Agreement in respect of the principal of, and interest on, the Subordinated Loan and any applicable Monetary Damages will be subordinated, upon the occurrence of a Bankruptcy Event, to the claims of Senior Creditors in accordance with the Insolvency Law, and will rank at least *pari passu* with the claims of all other subordinated creditors of the Borrower (whether actual or contingent) having a fixed maturity from time to time outstanding and will be senior to the claims of holders of the Borrower's Capital Stock in their capacity as shareholders.

4.2 No Security

The Subordinated Loan is not secured by any security.

4.3 Set-Off

Termination of any obligations under this Agreement by way of delivery of any asset in lieu of payment (*otstupnoye*), set-off (including as a result of an assignment) or novation as well as any other action that would cause this Agreement not to comply with Regulation No. 395-P, is prohibited.

4.4 Reclassification

If the CBR fails to issue the Final Conclusion to the Borrower on or before the Approval Date, Clause 4.1 (*Subordination*) shall not apply and the claims of the Lender against the Borrower in respect of principal of and interest on the Subordinated Loan will, upon the occurrence of a Bankruptcy Event, rank at least *pari passu* with the claims of Senior Creditors and the Subordinated Loan shall be treated as senior in priority to any subordinated debt or Capital Stock of the Borrower. In addition, if the Subordinated Loan is treated as senior in priority to any subordinated debt or Capital Stock of the Borrower in accordance with this Clause 4.4 (*Reclassification*), the provisions of Clause 8 (*Write Down*) shall not apply.

5. Prior Consent of the CBR

5.1 No Prepayment, Amendment and Termination without Prior Consent of the CBR

Notwithstanding any other provision of this Agreement, no early termination of, or amendment to, or early termination of the obligations under, this Agreement, or prepayment of the Subordinated Loan (in whole or in part) or prepayment of any interest accrued thereon, shall be permitted unless (i) the parties agree otherwise and (ii) the CBR has provided its prior written consent.

6. Interest

6.1 Rate of Interest

The Borrower will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Subordinated Loan from and including the Closing Date to (but excluding) the Early Repayment Date at the rate of 7.50 per cent. per annum (the "**Rate of Interest**") and from (and including) the Early Repayment Date to (but excluding) the Repayment Date at the Reset Rate of Interest.

6.2 Payment

Subject to the provisions of Clause 8.2 (c) (*Write Down Event*), interest at the Rate of Interest or the Reset Rate of Interest (as the case may be) (unless the Subordinated Loan has been repaid in full in accordance with Clause 7 (*Repayment and Prepayment*)) shall be paid by the Borrower to the Lender in arrear not later than 12.00 noon (New York time) one Business Day prior to each Interest Payment Date.

6.3 Accrual of Interest

Subject to the provisions of Clause 8.2 (d) (*Write Down Event*), interest on the Subordinated Loan will cease to accrue from the Repayment Date (or any date upon which the Subordinated Loan is prepaid in full pursuant to Clause 7 (*Repayment and Prepayment*) or repaid pursuant to Clause 14 (*Limited Acceleration Events*)) provided that, in each case, if payment of principal is withheld or refused by the Borrower in breach of its obligations under this Agreement, interest will continue to accrue (before or after any judgment) at the Rate of Interest or the Reset Rate of Interest (as the case may be to (but excluding) the date on which payment in full of the whole or the relevant proportion (as applicable) of the outstanding principal amount of the Subordinated Loan is made.

6.4 Calculations

The amount of interest payable in respect of the Subordinated Loan for any Interest Period shall be calculated by applying the Rate of Interest or Reset Rate of Interest (as the case may be) to the outstanding principal amount of the Subordinated Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

7. Repayment and Prepayment

7.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Subordinated Loan, including all sums of accrued but unpaid interest and any additional amounts thereon not later than 12.00 noon (New York time) one Business Day prior to 5 October 2027 (the “**Repayment Date**”).

7.2 General Condition to Prepayment

The Subordinated Loan may be repaid, in whole or in part, not earlier than after the fifth anniversary of the date of inclusion of the Subordinated Loan into Tier 2 Capital. The Lender may not require the repayment of the Subordinated Loan or any part thereof and/or the prepayment of any interest payable under the Subordinated Loan and/or termination of this Agreement, except as provided for by Clause 7.1 (*Repayment*).

7.3 Special Prepayment by Reason of Amendment to CBR Regulations

Notwithstanding the provisions of Clauses 7.1 (*Repayment*) and 7.2 (*General Condition to Prepayment*), the Borrower may, at its option, and with the prior written consent of the CBR, prepay the Subordinated Loan following the receipt of the Final Conclusion, at any time, if, as a result of any amendment to, clarification of or change in (including a change in the official interpretation or application of) Regulation No. 395-P and/or any other applicable requirements of the CBR, the Subordinated Loan ceases to fully qualify in whole but not in

part as Tier 2 Capital. If the Borrower elects to prepay the Subordinated Loan pursuant to this Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*) and notwithstanding the provisions of Clause 7.9 (*Provisions Exclusive*), the Subordinated Loan shall be prepaid, in whole but not in part, at the outstanding principal amount, together with accrued and unpaid interest and other amounts (if any) no earlier than the date on which the Subordinated Loan fully ceases to qualify as Tier 2 Capital but not more than 90 days following such date provided that notice thereof together with an Officer's Certificate confirming the existence of the relevant circumstances permitting such a prepayment shall be given to the Lender, with a copy to the Trustee, not less than 30 days prior to the date of prepayment. Upon the delivery of such notice and such Officer's Certificate, the Borrower shall be bound on the Prepayment Date to repay the Subordinated Loan (in whole but not in part) at the outstanding principal amount, together with accrued and unpaid interest and other amounts (if any).

7.4 Special Prepayment if the CBR does not issue the Borrower with the Final Conclusion on or before the Approval Date

Notwithstanding the provisions of Clauses 7.1 (*Repayment*) and 7.2 (*General Condition to Prepayment*), the Borrower may, at its option, prepay the Subordinated Loan (in whole but not in part) within 30 days following the Approval Date, if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date. If the Borrower elects to prepay the Subordinated Loan pursuant to this Clause 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*) and notwithstanding the provisions of Clause 7.9 (*Provisions Exclusive*), the Subordinated Loan shall be prepaid in whole, but not in part, at the outstanding principal amount thereof plus any accrued and unpaid interest thereon provided that notice thereof (which shall be irrevocable) together with an Officer's Certificate confirming the existence of the relevant circumstances permitting such a prepayment shall be given to the Lender, with a copy to the Trustee, not less than 10 days prior to the date of prepayment. Upon the delivery of such notice and such Officer's Certificate, the Borrower shall be bound on the Prepayment Date to repay the Subordinated Loan (in whole but not in part) at the outstanding principal amount plus any accrued and unpaid interest.

7.5 Prepayment at the option of the Borrower

The Borrower may, at its option, and with the prior written consent of the CBR, prepay the Subordinated Loan in whole (but not in part) on Early Repayment Date or any subsequent Interest Payment Date at its outstanding principal amount, together with accrued interest and other amounts (if any) thereon, on giving not less than 30 days' prior notice to the Lender (which notice shall be irrevocable).

"**Early Repayment Date**" means the later of the following two dates: (a) 5 October 2022, being the date that is not earlier than five years and six months after the Closing Date and (b) the fifth anniversary of the date of inclusion of the Subordinated Loan into Tier 2 Capital.

7.6 Special Prepayment in the Event of Taxes or Increased Costs

Notwithstanding the provisions of Clauses 7.1 (*Repayment*) and 7.2 (*General Condition to Prepayment*), if,

- (a) as a result of the application of, or any amendments or clarification to or change in, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any constituent part or political sub-division thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction) or a change in, or clarification of,

the application or official interpretation of such laws or regulations which change or amendment becomes effective on or after the date of this Agreement, the Borrower would thereby be required to make or increase any payment due hereunder; or

- (b) the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 9.4 (*Withholding on the Notes*) or 11.1 (*Compensation*) (unless the increase in payment is in respect of any amounts due or paid pursuant to Clause 3 (*Drawdown*));

in any such case, where such obligation cannot or could not be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty) if it obtains the prior written consent of the CBR, upon not more than 30 days' prior written notice to the Lender (copied to the Trustee) (which notice shall be irrevocable) specifying the date for prepayment of the Subordinated Loan and attaching an Officer's Certificate confirming that the Borrower would be required to increase the amount payable or to pay additional amounts and that the obligation to make such payment cannot or could not be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction (which notice shall be irrevocable), prepay the Subordinated Loan in whole (but not in part) at its outstanding principal amount, together with accrued interest and other amounts (if any) thereon, notwithstanding the provisions of Clause 7.9 (Provisions Exclusive).

7.7 Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes

Notwithstanding the provisions of Clause 7.1 (*Repayment*), the Borrower or any Subsidiary of the Borrower or any Person on behalf of the Borrower may from time to time, in accordance with the Conditions and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. If an amount of Notes has been surrendered to the Lender for cancellation by the Borrower or any of the Borrower's Subsidiaries and cancelled, subject to the prior written consent of the CBR, the Subordinated Loan shall be deemed to have been prepaid by the Borrower, notwithstanding the provisions of Clause 7.9 (*Provisions Exclusive*), in an amount equal to the aggregate principal amount of the Notes delivered to the Lender (as issuer of such Notes) for surrender and cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

7.8 Payment of Other Amounts

If the Subordinated Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.5 (*Prepayment at the option of the Borrower*), 7.6 (*Special Prepayment in the Event of Taxes or Increased Costs*) or 7.7 (*Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes*) the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement with respect to the prepaid amount. For the avoidance of doubt, if the principal amount of the Subordinated Loan is reduced pursuant to the provisions of Clause 7.7 (*Reduction of Subordinated Loan upon Cancellation of Corresponding Notes*), then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Subordinated Loan is so reduced and the Borrower or the relevant Subsidiary of the Borrower, as the case may be, shall not be entitled to any interest in respect of the cancelled Notes.

The Borrower shall indemnify the Lender on demand against any costs and expenses incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Repayment and Prepayment*).

7.9 Provisions Exclusive

The Borrower does not undertake in any form an obligation to prepay or repay all or any part of the amount of the Subordinated Loan. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid to the Lender under this Agreement.

7.10 Interest Refund

If, pursuant to Clauses 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.5 (*Prepayment at the option of the Borrower*), 7.6 (*Special Prepayment in the Event of Taxes or Increased Costs*) or 7.7 (*Reduction of the Subordinated Loan Upon Cancellation of Corresponding Notes*), the Subordinated Loan is declared due and payable and the sum paid by the Borrower in repayment of such Subordinated Loan is greater than the amount required by the Lender to discharge in full its obligations under the Notes, the Lender shall return to the Borrower, or to its order, an amount, by way of a refund of interest payable on such Subordinated Loan, equal to such excess sum.

8. Write Down

8.1 Notice

Following the occurrence of a Write Down Event, the Borrower shall promptly and in any event within three Business Days give written notice (“**Write Down Event Notice**”) to the Lender and the Trustee of the occurrence of such event. Such Write Down Event Notice shall (i) state that the Write Down Event has occurred, (ii) specify the event(s) constituting the Write Down Event including the Borrower’s Base Capital Adequacy Ratio as of the relevant Write Down Event Date and the anticipated Write Down Measure Effective Date. In addition, and provided at such time such Write Down Event is continuing, not less than three Business Days prior to the relevant Write Down Measure Effective Date, the Borrower shall give notice to the Lender and the Trustee of the aggregate anticipated Write Down Amount together with a breakdown of the amount of accrued and unpaid interest and/or the amount of principal that will be written down (the “**Write Down Measure Notice**”).

8.2 Write Down Event

(a) If a Write Down Event has occurred and is continuing, then on the Write Down Measure Effective Date:

- (i) any accrued and unpaid interest that was payable in respect of the Subordinated Loan shall not be repaid and shall not accrue interest, the result of which will be the full or partial termination of the Borrower’s obligations to repay the amounts of accrued and unpaid interest under the Subordinated Loan (such measure being an “**Interest Cancellation Measure**” or an “**Interest Cancellation**” and “**Cancel**” or “**Cancelled**” shall be construed accordingly); and/or
- (ii) the Borrower’s obligations hereunder to repay the principal amount of the Subordinated Loan as well as to pay any applicable Monetary Damages shall be terminated in full or in part (such measure in respect of the principal amount of the Subordinated Loan being a “**Principal Write Down Measure**”, and in respect of any Monetary Damages being a “**Monetary Damages Cancellation Measure**” and the terms “**Write Down**”, “**Written Down**”, “**Monetary Damages Cancellation**” and “**Cancelled**”, respectively, shall be construed accordingly),

provided, however, that if a Write Down Event has occurred as a result of any losses incurred by the Borrower, a Write Down Measure may only be applied after undistributed profit, reserve fund and other sources of the Borrower’s Base Capital have been exhausted to absorb such losses.

(b) The Borrower shall, on the Write Down Measure Effective Date:

- (i) *firstly*, Cancel any applicable Monetary Damages for the purposes of the Monetary Damages Cancellation Measure;
- (ii) *secondly*, if the Monetary Damages Cancellation Measure, together with the cancellation of monetary damages on the Write Down Instruments in full is insufficient to remedy the Write Down Event, Cancel the Interest Cancellation Amount for the purposes of the Interest Cancellation Measure; and
- (iii) *thirdly*, if the Interest Cancellation Measure, together with cancellation of accrued interest on the Write Down Instruments in full is insufficient to

remedy the Write Down Event, Write Down the Write Down Amount for the purposes of the Principal Write Down Measure.

Any amount of interest, principal or Monetary Damages referred to in sub-clauses (a) and (b) above shall be written down pro rata with any Write Down Instruments in each case such that the Write Down Event may be cured or, if such amounts would exceed the sum of all accrued and unpaid interest, principal and Monetary Damages, the Subordinated Loan would be reduced to zero (such Interest Cancellation Measure, Principal Write Down Measure and/or Monetary Damages Cancellation Measure, each a “**Write Down Measure**” and the amount to be written down and cancelled, a “**Write Down Amount**”). For the avoidance of doubt, references to accrued and unpaid interest in this Clause 8.2 (*Write Down Event*) shall include accrued and unpaid default interest payable under Clause 15.6 (*Default Interest Periods*).

- (c) If a Write Down Measure results in only a partial write-down and cancellation of amounts payable in respect of the Subordinated Loan, subsequent Write Down Measures may occur on one or more occasions.
- (d) During the period from (and including) the Write Down Event Date to but (excluding) the Write Down Measure Effective Date, interest shall not accrue on the Subordinated Loan and, if any amounts of interest and principal would otherwise become due and payable in accordance with the terms of this Agreement during such period, the Borrower shall not be required to make such payments while such Write Down Event remains uncured and any non-payment as a result of this Clause 8.2(d) shall not constitute an Acceleration Event under Clause 14.1 (*Payment Default*) and shall not accrue default interest in accordance with Clause 15.6 (*Default Interest Periods*).

8.3 Cancellation of the Subordinated Loan

On the applicable Write Down Measure Effective Date:

- (a) applicable amounts under or in respect of the Subordinated Loan (including, without limitation, accrued and unpaid interest and any Monetary Damages) will be written down and cancelled in an amount equal to the Write Down Amount and, in the case of a partial write-down and cancellation of the Subordinated Loan only, all references to accrued and unpaid interest and, if applicable, the outstanding principal amount of the Subordinated Loan in the Finance Documents shall be construed accordingly;
- (b) the Lender and the Trustee on behalf of the Noteholders shall automatically be deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Borrower with respect to, repayment of such portion of the accrued and unpaid interest and, if applicable, aggregate principal in respect of the Subordinated Loan, in each case so written down and cancelled pursuant to (a) above and Monetary Damages (if any); and
- (c) all rights of the Lender and the Trustee for payment of any amounts under or in respect of the Subordinated Loan so written down and cancelled (including, without limitation, accrued and unpaid interest) shall become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Write Down Event Notice or the Write Down Measure Effective Date.

8.4 No Payments Upon Occurrence of a Write Down Event

- (a) If a Write Down Event has occurred any Write Down Measures that are being applied shall apply until the Base Capital Adequacy Ratio is not less than 2 per cent. or, in the case of the Agency Trigger, until all of the Borrower’s capital adequacy ratios meet the requirements prescribed by Instruction No. 139-I;

- (b) From the Write Down Event Date and until the Write Down Measures cease to apply, the Borrower shall not make any payments of Monetary Damages, interest or any portion of the outstanding principal amount of the Subordinated Loan, and no Monetary Damages or interest shall accrue on such unpaid amounts. The Borrower shall immediately notify the Lender and the Trustee in writing of the cessation of any Write Down Event.

8.5 Additional Amounts

If a Write Down Event has occurred and is continuing, any and all additional amounts due and payable hereunder from the Write Down Event Date shall be withheld by the Borrower and payment thereof deferred (without accrual of interest thereon during such period) until such time as the Write Down Event has either:

- (a) been cured, following which such additional amounts may be paid to the Lender; or
- (b) the Subordinated Loan has been fully written down and cancelled, in which case any and all outstanding and additional amounts shall be written down and cancelled, the Lender and the Trustee on behalf of the Noteholders shall automatically be deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Borrower with respect to, repayment of such additional amounts and Monetary Damages (if any) and all rights of the Lender and the Trustee for payment of any such additional amounts shall become null and void.

8.6 The Borrower's Obligation to Provide Notices

The disclosure of the occurrence of a Write Down Event on the official website of the CBR and the provision by the Borrower to the CBR of information on the aggregate amounts of the Borrower's obligations under the Subordinated Loan and the Write Down Instruments and monetary damages (if any), which are subject to a write down, cancellation or other form of termination (conversion or exchange), the aggregate amount of obligations to be terminated and such other information (including information on the Borrower's approach to performance of the relevant provisions of subordinated instruments on conversion or exchange and termination of obligations) as may be required by Regulation No. 395-P or other applicable regulations in relation to such disclosure or provision of information will be made within the periods and in the manner set out in Regulation No. 395-P or such other applicable regulations.

9. Payments

9.1 Making of Payments

All payments of principal and interest to be made by the Borrower under this Agreement, and any payments made in connection with Clause 7 (*Repayment and Prepayment*) shall be made unconditionally by credit transfer to the Lender's Account not later than 12.00 noon (New York time) one Business Day prior to each Interest Payment Date or the Repayment Date, the Early Repayment Date or the relevant Prepayment Date (as the case may be) in Same-Day Funds.

The Borrower shall, in the case of any payments of principal and interest being made by the Borrower under this Agreement and any payments made in connection with Clause 7 (*Repayment and Prepayment*), one Business Day prior to the relevant due date, procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by authenticated SWIFT the irrevocable payment instructions relating to such payment. The Lender agrees with the Borrower that the Lender will not deposit any other monies into the

Account and that no withdrawals shall be made from such account other than for payments to be made in accordance with the Conditions and this Agreement.

9.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments made by the Borrower under this Agreement shall be made in full (except to the extent required by law) without set-off or counterclaim and free and clear of and without deduction or withholding for or on account of, any present or future Taxes imposed, collected, withheld, assessed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a “**Taxing Authority**”) within Russia or Ireland. If the Lender or the Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Russia or Ireland, as the case may be, references to jurisdiction in this Clause 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) shall be construed as references to Russia and/or Ireland and/or such other jurisdiction and in addition, upon enforcement of the fixed charge in the Finance Documents over certain rights, benefits and/or obligations under this Agreement, references in this Clause 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) to “**Ireland**” shall be construed to include the jurisdiction which the Trustee is a resident of and acting through for tax purposes.

If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall, on the date such payment is made, pay such additional amounts as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such withholding, deduction or increased payment) a net amount in U.S. dollars equal to the full amount which it would have received and retained had payment not been made subject to such Taxes, shall promptly account to the relevant Taxing Authority (within the time specified by legislation or assessment) for the relevant amount of such Taxes so withheld or deducted, together with a sum (if any), calculated up to the date of such payment, sufficient to ensure that the Lender is able to discharge in full its obligations under this Agreement due on such date, ignoring any limitation of the liability of the Lender to pay only sums actually received and retained (net of tax) but treating all sums potentially payable by the Lender as due, within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority.

If the Lender is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Taxes to be received or receivable) under or in respect of the Notes, the Borrower shall on demand pay to the Lender an amount equal to the loss, liability or cost which the Lender, or as the case may be, Trustee has or will have (directly or indirectly) suffered for or on account of Tax.

9.3 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for the Borrower to make any payments under this Agreement in the manner specified in Clause 9.1 (*Making of Payments*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

9.4 Withholding on the Notes

If the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged (or would be but for the limited recourse nature of the Notes) to make any withholding or deduction for or on account of any Taxes from any payment in respect of the Notes that is due or would otherwise be due but for the imposition of such withholding or deduction for or on account of such taxes, or in circumstances where the Lender is required to pay additional amounts pursuant to Condition 12 (*Taxation*), the Borrower agrees to pay to the Lender, not later than 12.00 noon (New York time) one Business Day prior to the date on which payment is due to the Noteholders in Same-Day Funds to the Lender, an additional amount equal to such additional amounts which the Lender must pay pursuant to Condition 12 (*Taxation*) or pursuant to this Clause 9.4; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid in respect of the Lender's obligations under Condition 12 (*Taxation*) and to the extent that the Noteholders or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the Notes, repay such additional amounts to the Borrower as are recovered (it being understood that none of the Lender, the Trustee, the Principal Paying Agent and Transfer Agent nor any other Paying Agent (each as defined in the Agency Agreement) shall have any obligation to determine whether any Noteholder is entitled to any such additional amounts).

9.5 Tax Indemnity

Without prejudice to, and without duplication of the provisions of Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*Withholding on the Notes*), if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of any Noteholder) on account of any Tax (other than any Tax on income or capital gains payable by the Lender) in respect of the Subordinated Loan or the Notes imposed by any taxing authority of Ireland, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax) payable or incurred in connection therewith.

Any payments required to be made by the Borrower under this Clause 9.5 (*Tax Indemnity*) are collectively referred to as “**Tax Indemnity Amounts**”. For the avoidance of doubt, the provisions of this Clause 9.5 (*Tax Indemnity*) shall not apply to any withholding or deductions of Taxes with respect to the Subordinated Loan or Notes in respect of which any additional amount is payable under Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) and 9.4 (*Withholding on the Notes*).

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

9.6 Reimbursement

If an additional amount is paid under Clause 9.1 (*Making of Payments*) or a Tax Indemnity Amount is paid under Clause 9.5 (*Tax Indemnity*) by the Borrower and the Lender, in its absolute discretion, determines that it has received and retained (net of tax) or been granted a credit against, a relief from, remission for, or a repayment of any Taxes or other reimbursements relating to a deduction or withholding, then if and to the extent that the Lender determines that such credit, relief, remission or repayment is in respect of or calculated

with reference to the deduction or withholding giving rise to such increased payment, or, as the case may be, in respect of an additional payment with reference to the loss, liability or cost giving rise to the additional payment, the Lender shall, to the extent that it determines in its absolute discretion that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment, and without worsening the position it would have been in had such additional amount or Tax Indemnity Amount not been required to be repaid, repay to the Borrower an amount equal to such amount as is attributable to such deduction or withholding or, as the case may be, such loss, liability or cost; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. Subject to Clauses 9.7 (*Mitigation*) and 9.8 (*Tax Treaty Relief*) the Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and nothing shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose any confidential information or any information relating to its tax affairs, any computations in respect thereof, or its business or any part of its business, provided that the Lender shall notify the Borrower of any tax credit or allowance or other reimbursement it receives in respect of any Tax Indemnity Amount with respect to which the Borrower has made a payment pursuant to Clause 9.5 (*Tax Indemnity*).

If the Borrower makes a withholding or deduction for or on account of Taxes from a payment under or in respect of this Agreement, and if an additional amount is paid under Clause 9.1 (*Making of Payments*) or a Tax Indemnity Amount is paid under Clause 9.5 (*Tax Indemnity*) by the Borrower, the Borrower may apply on behalf of the Lender to the relevant Russian Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by the Borrower or otherwise, the Lender receives such a payment (“**Russian Tax Payment**”) from the Russian Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify the Borrower that it has received that payment (and the amount of such payment); whereupon, provided that the Borrower has notified the Lender in writing of the details of a bank account of the Borrower specified for that purpose by the Borrower to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations and without worsening the position it would have been in had such additional amount or Tax Indemnity Amount not been required to be paid, the Lender will pay or transfer an amount equal to the Russian Tax Payment to the bank account of the Borrower specified for that purpose by the Borrower.

9.7 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-up*) or 9.4 (*Withholding on the Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender’s rights, or the Borrower’s obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that the parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances, including in the case of the Lender (without limitation) by transfer of its rights or obligations under this Agreement (but only in accordance with the terms and conditions of the other Finance Documents). The Borrower

agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 9.7 (*Mitigation*).

9.8 Tax Treaty Relief

The Lender, at the cost of the Borrower, shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and Ireland, including its obligations under Clause 9.9 (*Delivery of Forms*).

9.9 Delivery of Forms

The Lender shall, at the expense of the Borrower, no later than 10 Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year), use its best endeavours to deliver to the Borrower a certificate issued by the Revenue Commissioners in Ireland (or by the competent Agency in such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming the status of the Lender as a resident of Ireland for tax purposes for the appropriate year (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and (to the extent it is able to do so under applicable law including Russian laws) from time to time, deliver to the Borrower such duly completed application form and, if required, any other documents, and such other information as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The application form and, if required, other documents issued by the Lender referred to in this Clause 9.9 (*Delivery of Forms*) shall be duly signed by the Lender and stamped or otherwise approved by the Revenue Commissioners in Ireland and the power of attorney shall be duly signed and apostilled or otherwise legalised.

If a relief from deduction or withholding of Russian tax or a tax refund under this Clause 9.9 (*Delivery of Forms*) has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's U.S. dollars bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such U.S. dollars bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such U.S. dollars bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such U.S. dollars bank account and shall use its reasonable efforts to assist the Lender with all required information in order to obtain the certificate mentioned above.

The Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the Revenue Commissioners in Ireland (or by the competent Agency in such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), but shall promptly notify the Borrower about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate.

9.10 Lender Notification

The Lender agrees promptly, upon becoming aware thereof, to notify the Borrower if it ceases to be resident in Ireland or a Qualifying Jurisdiction.

10. Conditions Precedent

10.1 Documents to be Delivered

The obligation of the Lender to make the Subordinated Loan shall be subject to the receipt by the Lender on or prior to the Closing Date of a signed copy of each of the following documents in the Agreed Form:

- (a) the Fee Side Letters;
- (b) evidence that the persons mentioned in Clause 16.5 (*Service of Process (Borrower)*) have agreed to receive process in the manner specified herein; and
- (c) evidence that the persons mentioned in Clause 16.6 (*Service of Process (Lender)*) have agreed to receive process in the manner specified herein.

10.2 Further Conditions

The obligation of the Lender to make the Subordinated Loan (less any deduction (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other Costs*)) shall be subject to the further conditions precedent that, as of the Closing Date:

- (a) the representations and warranties made and given by the Borrower in Clause 12.1 (*Borrower's Representation and Warranties*) are true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing;
- (b) no event shall have occurred and be continuing that constitutes an Acceleration Event;
- (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement;
- (d) the Subscription Agreement, the Trust Deed and the Agency Agreement shall have been executed and delivered; and
- (e) the Lender shall have received in full the proceeds of the issue of the Notes pursuant to the Subscription Agreement and the fees and expenses payable on or prior to the Closing Date pursuant to Clauses 2.3 (*Facility Fee and Other Costs*) and 3.4 (*Ongoing Fees and Expenses*).

11. Change in Law or Banking Practices; Increase in Cost

11.1 Compensation

If after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Subordinated Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, Agency or any official of any such authority, which:

- (a) subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Subordinated Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income,

capital gains or any Taxes referred to in Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*Withholding on the Notes*)); or

- (b) increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Subordinated Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*Withholding on the Notes*)); or
- (c) imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; provided, however, that the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or
- (d) imposes or will impose on the Lender any other condition affecting this Agreement or the Subordinated Loan, and if as a result of any of the foregoing:
- (e) the cost to the Lender of making, funding or maintaining the Subordinated Loan is increased; or
- (f) the amount of principal, interest or other amount payable to or received by the Lender under this Agreement is reduced; or
- (g) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower under this Agreement or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Subordinated Loan,

then subject to the following, and in each such case:

- (A) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction, change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and
- (B) the Borrower, in the case of paragraphs 11.1(e) and 11.1(g) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of paragraph 11.1(f) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; provided, however, that in the case of sub-Clause 11.1(c) above (relating to a class of business or transaction which, in

the reasonable opinion of the Lender, includes this Agreement), the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement and provided that the Lender shall not be entitled to such additional amount where such increased cost arises as a result of the negligence or wilful default of the Lender and further provides, however, that this Clause 11.1 (*Compensation*) will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 9.4 (*Withholding on the Notes*) or 9.5 (*Tax Indemnity*).

11.2 Mitigation

If the Lender becomes entitled to make a claim pursuant to Clause 11.1 (*Compensation*), the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 11.2 (*Mitigation*) shall obligate the Lender to incur any costs or expenses in taking any action under this Agreement which, in the reasonable opinion of the Lender, is prejudicial to its interests and unless the Borrower agrees to reimburse the Lender such costs or expenses.

11.3 Lender Tax Event

If, as a result of a change in the law, practice or interpretation of the law, the Lender is unable to obtain relief in computing its Irish tax liability for some or all of the interest payable on any Notes (having duly and timely claimed such relief and notwithstanding receipt of confirmation from the relevant tax authorities that such relief is available), the Borrower agrees to pay such additional amount to the Lender that the Lender reasonably determines will leave it in the same after tax position as if it were able to obtain tax relief for all of the interest payable on such Notes. The Borrower's obligation to pay such additional amounts shall survive the termination of this Agreement.

12. Representations and Warranties

12.1 Borrower's Representations and Warranties

The Borrower makes the representations and warranties to the Lender set out in this Clause 12.1 (*The Borrower's Representations and Warranties*) with the intent that such shall form the basis of this Agreement and shall remain in full force and effect, at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date and acknowledges that the Lender has entered into this Agreement in reliance on the following representations and warranties:

- (a) the Borrower and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation, is not in liquidation or receivership and has the corporate power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Subordinated Loan; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Subordinated Loan on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

- (b) this Agreement has been or will be duly executed by the Borrower and constitutes legal, valid and binding obligations of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and as to enforceability, (i) to general principles of equity, (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments, and (iii) to the fact that certain gross up and indemnity provisions may not be enforceable under Russian law;
- (c) the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of or default under:
 - (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation;
 - (ii) the constitutive documents, rules and regulations of the Borrower or any of its Material Subsidiaries or the terms of the banking licence granted to the Borrower by the CBR; or
 - (iii) any agreement or other undertaking or instrument to which the Borrower or any of its Material Subsidiaries is a party or which is binding upon the Borrower or any of its Material Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;
- (d) all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation (including, without limitation, the CBR, where applicable), if any, required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement (subject to a Russian legal requirement to provide to a Russian court a duly certified translation thereof into Russian) have been obtained or effected and are and shall remain in full force and effect, other than in each case, any such consent, licence, notification, authorisation, approval or filing required in relation to exchange control regulations which may only be obtained after the date of this Agreement;
- (e) no event has occurred and is continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Acceleration Event or a default under any agreement or instrument evidencing any Indebtedness of the Borrower, and no such event will occur upon the making of the Subordinated Loan;
- (f) there are no judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) current or, to the knowledge of the Borrower, threatened or pending, against the Borrower or any of its Material Subsidiaries, the adverse determination of which could singly or in the aggregate:
 - (i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations under this Agreement; or
 - (ii) have a Material Adverse Effect;
- (g) each of the Borrower and each of its Material Subsidiaries has good title to its property necessary for the conduct of its business, duly registered, where applicable, in its name and free and clear from all Lien and adverse third party claims that are likely to have a Material Adverse Effect and the Borrower's obligations under this

Agreement constitute direct, unconditional, unsecured and subordinated obligations of the Borrower;

- (h) the audited consolidated financial statements of the Group for the years ended 31 December 2016 and 2015 contained in the Prospectus were prepared in accordance with IFRS and:
 - (i) unless not required by IFRS, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and
 - (ii) present fairly, in all material respects, the assets and liabilities of the Group, the financial condition and the results of operations of the Group as at the dates and in respect of the periods for which they were prepared;
- (i) since the date of the latest audited IFRS consolidated financial statements of the Group, there has been no significant change in the financial or trading position of the Group and no material adverse change in the condition (financial or otherwise), results of business, operations or immediate prospects of the Group or in the Borrower's ability to perform its obligations under this Agreement;
- (j) under the laws of the Russian Federation in force at the date of this Agreement, the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any constituent part or political subdivision or Taxing Authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);
- (k) neither the Borrower, nor any Material Subsidiary, nor their respective property, has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;
- (l) the Borrower and each Material Subsidiary are in compliance in all material respects with all applicable provisions of applicable law;
- (m) there are no labour strikes, disturbances, lockouts, slowdowns, stoppages of employees or other employment disputes, of or against the Borrower or any of its Material Subsidiaries which exist, or to the Borrower's knowledge, threatened, imminent or pending, except for those which would not have a Material Adverse Effect;
- (n) save as disclosed in the section "Enforcement of Foreign Judgments" on page viii of the Prospectus, in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in the Russian Federation;
- (o) subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by the Borrower under this Agreement;
- (p) all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower or any of its

Material Subsidiaries to own its assets and carry on its business are in full force and effect and the Borrower and its Material Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings, registrations and authorisations in all material respects;

- (q) it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes;
- (r) neither the Borrower, nor any of its Material Subsidiaries, is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate Taxing Authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and its Material Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith) and to the best of the knowledge of the Borrower, no Tax deficiency is currently asserted against the Borrower or any of its Material Subsidiaries and no judicial, arbitral or administrative actions, proceedings or claims with respect to Taxes are current or, to the knowledge of the Borrower, threatened or pending against the Borrower or any of its Material Subsidiaries, the adverse determination of which would singly or in the aggregate:
 - (i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations under this Agreement; or
 - (ii) have a Material Adverse Effect;
- (s) neither the Borrower, nor any of its Material Subsidiaries, has taken any corporate action nor, to the best of the Borrower's knowledge, have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Material Subsidiaries for its bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues;
- (t) under current laws and regulations of Russia and Ireland and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 12.2 (*Lender's Representations and Warranties*) and compliance by the Lender with Clause 9.9 (*Delivery of Forms*), all payments of principal and/or interest, additional amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of any Loan may be paid by the Borrower to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Ireland, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Borrower makes no representation as to any income or similar tax of Ireland (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein; and
- (u) save as disclosed in the section "*Capitalisation and Indebtedness*" and the section "*Operating and Financial Review*" of the Prospectus, there have not been any changes

in share capital or any material increase in non-current liabilities or any material decreases in current assets or total assets or any decrease in shareholders' equity of the Group as compared with amounts shown in the consolidated balance sheet of the Borrower as at 31 December 2016 and since 31 December 2016, there have not been any material decreases in the Group's interest income, net interest income, non-interest income or net income as compared with the period from 31 December 2015 to the date which is one year prior to the date this representation is given.

12.2 Lender's Representations and Warranties

The Lender makes the representations and warranties to the Borrower set out in this Clause 12.2 (*Lender's Representations and Warranties*) with the intent that such shall form the basis of this Agreement and acknowledges that the Borrower has entered into this Agreement in reliance on these representations and warranties:

- (a) the Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute this Agreement, to issue the Notes and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary corporate action to approve and authorise the same;
- (b) the execution of this Agreement, and the documents or deeds evidencing or relating to the issue of the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety;
- (c) this Agreement and the Notes have been duly authorised, executed and delivered by the Lender and constitute or will constitute legal, valid and binding obligations of the Lender, enforceable against the Lender in accordance with their respective terms (subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity);
- (d) all Irish authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement, and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein, have been obtained and are in full force and effect (other than, in relation to the filing of a form C1 containing particulars of the Trust Deed together with the prescribed fee within 21 days of the date of the Trust Deed);
- (e) the Lender is resident in Ireland, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland and it will be able to receive certification to this effect from the Irish tax authorities;
- (f) the Lender does not have a permanent establishment in the Russian Federation save for any which may be created solely as a result of the Lender entering into this Agreement or any previous loan agreements with the Borrower and the transactions contemplated therein; and
- (g) the Lender does not have any current intentions to effect, during the term of the Subordinated Loan, any corporate action or reorganisation or change of taxing

jurisdiction that would result in the Lender ceasing to be a resident of Ireland and subject to taxation in Ireland.

13. Covenants by the Borrower

For so long as any amount remains outstanding under this Agreement:

13.1 Capital Treatment

The Borrower will use its best efforts to procure that the CBR issues a Final Conclusion and will provide all relevant information about the Subordinated Loan to the CBR as may be necessary for the issuance of such Final Conclusion.

13.2 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries (as applicable) will:

- (a) take all necessary action to obtain, and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business;
- (b) take all necessary action to obtain, and do or cause to be done all things necessary to maintain in full force and effect all consents, licences, approvals and authorisations necessary or desirable to own or lease its assets and carry on its business and operations; and
- (c) make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the legality, validity, enforceability or admissibility in evidence in Russia thereof, provided that, in any case where the Borrower and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 13.2 (*Maintenance of Authorisations*) within 60 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

13.3 Notes held by the Borrower or any of its Material Subsidiaries

At any time after the Borrower or any of its Material Subsidiaries shall have purchased any Notes and retained such Notes for its own account, the Borrower shall notify the Trustee and the Lender to that effect and thereafter deliver to the Lender (copied to the Trustee) as soon as practicable after being so requested in writing by the Lender an Officer's Certificate of the Borrower setting out the total principal amount of Notes which, at the date of such certificate, are held by the Borrower (or any Material Subsidiary of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

13.4 Financial Information

- (a) the Borrower hereby undertakes that so long as the Subordinated Loan or any other sum owing under this Agreement remains outstanding and as soon as the same become available, but in any event within 150 days after the end of each of its financial years, it shall deliver to the Lender and the Trustee copies of the Group's consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with IFRS, consistently applied with the corresponding financial statements for the preceding period;

- (b) the Borrower hereby undertakes that so long as the Subordinated Loan or any other sum owing under this Agreement remains outstanding and as soon as the same become available, but in any event within 90 days after the end of each half of its financial years, it shall deliver to the Lender and the Trustee the Group's consolidated financial statements for such period, in each case reviewed by the Auditors and prepared in accordance with IFRS, consistently applied with the corresponding financial statements for the preceding period;
- (c) the Borrower hereby undertakes that, so long as the Subordinated Loan or any other sum owing under this Agreement remains outstanding it shall deliver to the Lender and the Trustee, within a reasonable timeframe, such additional information regarding the financial position or the business of the Borrower or the Group, as the Lender may reasonably request, including providing certificates to the Trustee pursuant to the Trust Deed;
- (d) the Borrower shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 13.4 (*Financial Information*) is:
 - (i) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS and consistently applied;
 - (ii) in the case of the statements provided pursuant to sub-Clause 13.4(a) above, accompanied by an audit report thereon of the Auditors, and in the case of the statements provided pursuant to sub-Clause 13.4(b) above, accompanied by a review report thereon of the Auditors, in each case including opinions of such Auditors with accompanying notes and annexes and in a form satisfactory to the Lender; and
 - (iii) in the case of the statements provided pursuant to sub-Clause 13.4(a) above and sub-Clause 13.4(b) (above), certified by an Authorised Signatory of the Borrower as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period; and
- (e) the Borrower shall from time to time, on the request of the Lender, furnish the Lender with such information about the business and consolidated financial condition of the Borrower or the Group as the Lender may reasonably require, including pursuant to this Clause 13.4 (*Financial Information*) and Clauses 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*) and 7.6 (*Special Prepayment in the Event of Taxes or Increased Costs*) and such information may also be provided to the Trustee, if so requested by the Trustee.

13.5 FATCA Compliance

The Borrower hereby covenants with the Lender that it will provide the Lender with sufficient information, provide all reasonable assistance necessary, and pay any costs associated with, compliance by the Lender with (i) Section 1471(b) of the US Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Section 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof ("**FATCA**") or any intergovernmental agreement to implement FATCA and (ii) any other tax reporting or automatic exchange of information regime which the Lender is subject to.

13.6 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of the Russian Federation to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in the Russian Federation of this Agreement. The Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement (“**Relevant Payments**”) provided that, if the Borrower is prevented, hindered or limited from paying such amounts by virtue of any laws and regulations of the Russian Federation or any requirement of the CBR or any other relevant authority, the Borrower undertakes to use its best endeavours to promptly take all actions necessary to comply with such laws and regulations or requirements of the CBR in order to enable it to make the Relevant Payments and shall, as soon as such compliance is achieved, make all Relevant Payments under this Agreement.

14. Limited Acceleration Events

14.1 Payment Default

If the Borrower fails to pay any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than 14 days, the Lender may at its discretion and without further notice, institute proceedings in a manner and to the extent contemplated by the applicable law for the insolvency (bankruptcy) of the Borrower and/or to prove for its debt, and claim, in any consequent liquidation of the Borrower. For the avoidance of doubt, this Clause 14.1 (*Payment Default*) shall not apply to a failure to pay caused by the occurrence of a Write Down Event in accordance with Clause 8 (*Write Down*) including any failure to pay as a result of Clause 8.2(d) (*Write Down Event*).

14.2 Winding-up

On the occurrence of any of the following events:

- (a) the commencement of any liquidation of the Borrower (*likvidatsia*, as such term is defined in the Civil Code of the Russian Federation);
- (b) the entering into force of the decision of a competent court of the Russian Federation on bankruptcy of the Borrower (*reshenie o priznanii dolzhnika bankrotom*, as such term is defined under the Insolvency Law);
- (c) any revocation of any licence for the performance of banking operations of the Borrower; or
- (d) any other event, under Russian law, whereby the obligations of the Borrower under this Agreement are accelerated (otherwise than at the option of the Borrower),

the Lender may give notice to the Borrower that under the laws of the Russian Federation the Subordinated Loan is, and it shall accordingly become, due and repayable (*srok ispolneniya obyazatelstv schitaetsya nastypivshim*, as such term is used in Russian law) (subject to and in accordance with the provisions of Clause 4.1 (*Subordination*) above) at the outstanding principal amount thereof together with any interest accrued and unpaid to the date of repayment and any additional amounts due and payable by the Borrower pursuant to this Agreement, and the Lender may, at its discretion and without further notice, take any actions in the manner and to the extent contemplated by the applicable law of the Russian Federation

to prove for its debt and/or, to the extent applicable, commence liquidation or winding up proceedings of the Borrower.

14.3 Notice of Acceleration Event

The Borrower shall deliver to the Lender and the Trustee, forthwith after becoming aware thereof, written notice of any event described in Clauses 14.1 (*Payment Default*) and 14.2 (*Winding-Up*) (each an “**Acceleration Event**”), its status and what action the Borrower is taking or proposes to take with respect thereto.

14.4 Proceedings

In addition to its rights under Clauses 14.1 (*Payment Default*) and 14.2 (*Winding-Up*), the Lender may institute such other proceedings against the Borrower as it may think fit to enforce any obligation, condition or provision binding on the Borrower under this Agreement (other than any obligation for payment of any principal or interest in respect of the Subordinated Loan contemplated by Clauses 14.1 (*Payment Default*)) provided that the Borrower shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing or measured by reference to principal or interest in respect of the Subordinated Loan sooner than the same would otherwise have been payable by it or (ii) any damages.

14.5 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

15. Indemnity and Default Interest

15.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each Person controlling the Lender within the meaning of the United States securities laws (each an “**indemnified party**”) properly incurs any out of pocket loss, liability, cost, claim, charge, expense (including without limitation, Taxes, any value added tax, legal fees, costs and expenses and any applicable stamp duties, capital duties and other similar duties payable, including any interest and penalties thereon or in connection therewith), demand, action or damages (a “**Loss**”) as a result of or in connection with the Subordinated Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Subordinated Loan and/or corresponding Notes outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all properly incurred out of pocket costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred as a result of or arising out of or in relation to any failure to pay by the Borrower or delay by the Borrower in paying the same, unless such Loss was caused either by such indemnified party’s negligence or wilful misconduct. The Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause 15.1 (*Indemnification*).

15.2 Independent Obligation

Clause 15.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement, the Subscription Agreement or any other obligations of the Borrower in connection with the issue

of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

15.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 15.1 (*Indemnification*) and specifying in full detail the basis therefor and calculations thereof shall, in the absence of manifest error, be prima facie evidence of the amount of such loss, cost, charges, expenses and liabilities.

15.4 Currency Indemnity

Each reference in this Agreement to U.S. dollars is of the essence. To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in U.S. dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due (the “**Due Amount**”), the Borrower hereby agrees to indemnify and hold harmless the Lender against any such deficiency in U.S. dollars. Any obligation of the Borrower not discharged by payment in U.S. dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount in U.S. dollars that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

15.5 Survival

The obligations of the Borrower pursuant to Clauses 9.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 9.4 (*Withholding on the Notes*), 9.5 (*Tax Indemnity*), 9.6 (*Reimbursement*), 15.1 (*Indemnification*) and 15.4 (*Currency Indemnity*) shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Subordinated Loan by the Borrower.

15.6 Default Interest Periods

If any sum due and payable by the Borrower under this Agreement is not paid on the due date therefore in accordance with the provisions of Clause 9 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an “**unpaid sum**”) is discharged shall be divided into successive periods, each of which (other than the first, which shall commence on and shall include the day on which such unpaid sum is initially due and payable and unpaid) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 15 (*Indemnity and Default Interest*)) be selected by the Lender (but shall in any event not be longer than one month).

15.7 Default Interest

During each such period relating thereto as is mentioned in Clause 15 (*Indemnity and Default Interest*) an unpaid sum shall accrue interest for each day it remains unpaid at a rate per

annum equal to the applicable Rate of Interest or the Reset Rate of Interest (as the case may be).

15.8 Payment of Default Interest

Any interest which shall have accrued under Clause 15.7 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

16. Governing Law and Arbitration

16.1 Governing Law

This Agreement, including any non-contractual obligations arising out of or in connection with this Agreement, shall be governed by, and construed in accordance with, the laws of England.

16.2 Arbitration

The parties irrevocably agree that any claim, dispute or difference of whatever nature arising under, out of or in connection with this Agreement (including a claim, dispute or difference regarding its existence, termination or validity, and further including any dispute relating to any non-contractual obligations arising out of or in connection with this Agreement) (a “**Dispute**”), shall be referred to and finally settled by arbitration in accordance with the Rules of the LCIA (the “**Rules**”) as at present in force and as modified by this Clause 16.2 (*Arbitration*), which Rules shall be deemed incorporated into this Clause 16.2 (*Arbitration*). The number of arbitrators shall be three, one of whom shall be nominated by each of the parties and the third of whom, who shall act as chairman, shall be nominated by the two party nominated arbitrators. If the two party-nominated arbitrators cannot agree on a third arbitrator to act as chairman, the LCIA court will appoint a chairman. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

16.3 No Claim of Immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

16.4 Proceedings

The Borrower consents generally in respect of any proceedings (including arbitral proceedings pursuant to Clause 16.2 (*Arbitration*)) to the giving of any relief (interim or otherwise) or the issue of any process in connection with any such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which is made or given in such proceedings.

16.5 Service of Process (Borrower)

The Borrower agrees that the service of process relating to any proceedings in England and Wales may be made by delivery to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively

appointed to accept service of process, the Borrower shall (i), immediately notify the Lender and (ii) promptly appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days of the notification referred to in (i) above, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 16.5 (*Service of Process (Borrower)*) shall affect the right of the Lender to serve process in any other manner permitted by law.

16.6 Service of Process (Lender)

The Lender agrees that the service of process relating to any proceedings in England and Wales may be made by delivery to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Lender shall (i), immediately notify the Borrower and (ii) promptly appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days of the notification referred to in (i) above, the Borrower shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause 16.6 (*Service of Process (Lender)*) shall affect the right of the Borrower to serve process in any other manner permitted by law.

17. Notices

17.1 Addresses for Notices

All notices, requests, demands or other communications to or upon the respective parties to this Agreement shall be given or made in the English language by letter or fax or email (subject to the subsequent dispatch of the original by post), by hand or by courier to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

Lender: if to the Lender, to it at:

CBOM Finance p.l.c.
2nd Floor, Palmerston House
Fenian Street
Dublin 2 Ireland
Fax: + 353 1 905 8029
Attention: The Directors

Borrower: if to the Borrower, to it at:

CREDIT BANK OF MOSCOW (public joint-stock company)
2 (Building 1) Lukov Pereulok
Moscow 10745
Russian Federation
Fax: +7 495 797 4222 (ext. 1590)
Email: financial.institutions@mkb.ru
Attention: International Business Division

Trustee: if to the Trustee, to it at:

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
London
E14 5LB

Fax:+44 (0) 20 7500 5877
Attention: Agency and Trust

or to such other address or fax number as any party may hereafter specify in writing to the other.

17.2 Effectiveness

Every notice or other communication sent in accordance with this Clause 17 (*Notices*) shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, provided however, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the city of the addressee.

18. Assignment

18.1 Binding Effect

This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the assignment referred to in Clause 18.3 (*No Assignment by the Lender*) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower pursuant to Clause 9.6 (*Reimbursement*) or Clause 11 (*Change in Law or Banking Practices; Increase in Cost*).

18.2 No Assignment by the Borrower

The Borrower shall not be entitled to assign, dispose of, novate or transfer all or any part of its rights or obligations hereunder to any other party.

18.3 No Assignment by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except as contemplated by the Trust Deed.

19. General

19.1 Evidence of Debt

The entries made in the Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations recorded therein.

19.2 Stamp Duties

- (a) The Borrower shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on the Borrower by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents and shall indemnify the Lender against any and all costs, penalties and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of properly documented evidence of such costs and expenses.

- (b) The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes, duties or similar charges and shall indemnify the Lender against any and all costs and expenses properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes, duties or similar charges.

19.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

19.4 Prescription

Subject to the Lender having previously received from the Borrower the principal amount thereof or interest thereon, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 (*Prescription*) of the Notes (as confirmed to the Lender by the Trustee).

19.5 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

19.6 Counterparts

This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or email (PDF) shall be effective as delivery of a manually executed counterpart of this Agreement. In relation to each counterpart, upon confirmation by or on behalf of the signatory that the signatory authorises the attachment of such counterpart signature page to the final text of this Agreement such counterpart signature page shall take effect together with such final text as a complete authoritative counterpart.

19.7 Language

The language which governs the interpretation of this Agreement is the English language.

19.8 Amendments

This Agreement may not be varied unless: (i) any amendment or variation is in writing signed by the parties; (ii) an amendment agreement (or draft) has been submitted to the CBR; and (iii) written approval from the CBR has been received.

19.9 Partial Invalidity

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

20. Limited Recourse and Non Petition

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received and retained (net of tax) from the Borrower by or for the account of the Lender pursuant to this Agreement (the “**Lender Assets**”), subject always (A) to the Security Interests (as defined in the Trust Deed) and (B) to the fact that any claims of the Joint Lead Managers (as defined in the Subscription Agreement) under the Subscription Agreement shall rank in priority to any claims of the Borrower, and that any such claim by the Joint Lead Managers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the Lender Assets, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower (nor any person acting on its behalf) shall be entitled at any time to institute against the Lender or join in any institution against the Lender of any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

The provisions of this Clause 20 (*Limited Recourse and Non Petition*) shall survive the termination of this Agreement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued).

The U.S.\$600,000,000 7.50 per cent. Loan Participation Notes due 2027 (the “**Notes**” which expression includes, unless the context requires otherwise, any further Notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of CBOM Finance p.l.c. (the “**Issuer**” or the “**Lender**”, as the case may be) which expressions shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 10(C) (*Substitution*) are constituted by, are subject to, and have the benefit of, a trust deed dated 5 April (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) and made between the Issuer and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a subordinated loan in an aggregate amount of U.S.\$600,000,000 (the “**Subordinated Loan**”) to CREDIT BANK OF MOSCOW (public joint-stock company) (the “**Bank**”). The terms of the Subordinated Loan are recorded in a subordinated loan agreement dated 3 April 2017 between the Issuer (in its capacity as lender thereunder) and the Bank (as amended and supplemented from time to time, the “**Subordinated Loan Agreement**”).

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). Noteholders must therefore rely solely and exclusively on the Bank’s covenant to pay under the Subordinated Loan Agreement, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer (as lender) under the Trust Deed has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Subordinated Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”) and has assigned absolutely certain other rights under the Subordinated Loan Agreement to the Trustee (the “**Assigned Rights**” and, together with the Charge, the “**Security Interests**”) in each case excluding the Reserved Rights (as defined in the Trust Deed).

In certain circumstances, the Trustee may (subject to it being indemnified and/or secured (including by way of prefunding) to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to a paying agency agreement (the “**Agency Agreement**”) dated 3 April 2017 and made between the Bank, the Issuer, Citigroup Global Markets Deutschland AG, as the registrar (the “**Registrar**”, which expressions shall include any successors), Citibank, N.A., London Branch, as the principal paying agent (the “**Principal Paying Agent**”, which expressions shall include any

successors), and the transfer agents and paying agents named therein (the “**Transfer Agents**” and “**Paying Agents**” respectively together, the “**Agents**”, which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Subordinated Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer (being, at the date hereof, 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland,) the principal office of the Trustee (being, at the date hereof, Citigroup Centre, Canada Square, London E14 5LB, United Kingdom and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent.

Certain provisions of these terms and conditions (the “**Conditions**”) are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Subordinated Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Subordinated Loan Agreement and the Agency Agreement which are applicable to them.

1. STATUS AND LIMITED RECOURSE

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Subordinated Loan. The Notes constitute the secured, limited recourse obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes solely for financing the Subordinated Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax and any other deductions whatsoever) by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Trust Deed). The right of the Issuer to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer’s payment obligations under the Trust Deed and in respect of the Notes.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Subordinated Loan Agreement, less any amount in respect of the Reserved Rights and subject to Condition 8 (*Taxation*), will be made *pro rata* among all Noteholders, on the payment dates on which such payments are due in respect of the Notes, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Subordinated Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, the Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Bank.

Noteholders are deemed to have notice of, and to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Subordinated Loan Agreement. It is hereby expressly *provided that*, and Noteholders are deemed to have accepted that:

- (a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Bank of its obligations under the Subordinated Loan Agreement or the recoverability of any sum of principal or interest or any additional amounts (if any) due or to become due from the Bank under the Subordinated Loan Agreement;

- (b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;
- (c) neither the Issuer nor the Trustee shall at any time be liable for any representation, misrepresentation, breach of warranty or warranty or any act, default or omission of the Bank under or in respect of the Subordinated Loan Agreement;
- (d) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the Registrar, any Transfer Agent or any other Agents of their respective obligations under the Agency Agreement;
- (e) the financial servicing and performance of the terms of the Notes depends solely and exclusively upon performance by the Bank of its obligations under the Subordinated Loan Agreement and its covenant to make payments under the Subordinated Loan Agreement and its credit and financial standing. The Bank has represented and warranted to the Issuer in the Subordinated Loan Agreement that the Subordinated Loan Agreement constitutes a legal, valid and binding obligation of the Bank;
- (f) the Issuer and (following the creation of the Security Interests) the Trustee shall be entitled to rely on certificates of the Bank (and, where applicable, certification by third parties) as a means of monitoring whether the Bank is complying with its obligations under the Subordinated Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security; and
- (g) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from the Bank the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the Notes constitute direct, general, limited recourse and secured obligations of the Issuer. The obligations of the Issuer in respect of the Notes will at all times rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Subordinated Loan Agreement are made by the Bank to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes, except to the extent that there is a subsequent failure to make payment to the Noteholders.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Subordinated Loan Agreement or the Subordinated Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed,

no Noteholder will have any entitlement to enforce the Subordinated Loan Agreement or direct recourse to the Bank except its rights against the Issuer through action by the Trustee pursuant to the Charge and the assignment of the Assigned Rights granted to the Trustee in the Trust Deed.

The Trustee may (subject to the non-petition covenant contained in this Condition 1) at any time at its discretion and without notice, institute such proceedings or take such other action as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes (including, without limitation, after the occurrence of a Relevant Event, exercising its rights under or enforcing, the Security Interests created in the Trust Deed), but in any such case it shall not be bound to do so unless it has been directed or requested to do so by the Noteholders as described herein and indemnified and/or secured (including by way of prefunding) to its satisfaction.

Notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received and retained (net of tax) by or for the account of the Issuer from the Bank in respect of principal, interest or, as the case may be, other amounts relating to the Subordinated Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered and retained (net of tax) by or on behalf of the Issuer or the Trustee (following a Relevant Event or (if applicable) an Acceleration Event). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

None of the Noteholders or other creditors (not any other person acting on behalf of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgement as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. FORM AND DENOMINATION

The Notes are issued in registered form in the denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each a "**Specified Denomination**").

The Notes may be sold to (i) qualified institutional buyers (within the meaning of Rule 144A under the United States Securities Act of 1933 (the "**Securities Act**")) ("**QIBs**") who are also qualified purchasers (within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940) ("**QPs**") in the United States in reliance on Rule 144A (the "**Restricted Notes**"); or (ii) to non-U.S. persons in reliance on Regulation S under the Securities Act (the "**Unrestricted Notes**").

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Issuer will cause a register (the “**Register**”) to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the “**holder**” or “**Noteholder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Definitive Note Certificate will be issued to each Noteholder in respect of its registered holding. Each Definitive Note Certificate will be serially numbered with an identifying number which will be recorded in the Register.

In these Conditions, “**Definitive Note Certificate**” means Notes, substantially in the form set out in Part A (*Form of Definitive Note Certificate*) of Schedule 1 (*Forms of Definitive Notes*) to the Trust Deed and includes any replacement definitive note certificate issued pursuant to Condition 13 (*Replacement of Definitive Note Certificates*) and any other definitive note certificates representing Further Notes or any of them.

(B) Title

The holder of any Note as recorded in the Register, will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Definitive Note Certificate by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous loss or theft of such Definitive Note Certificate) and no Person shall be liable for so treating such holder. No person shall have any rights to enforce any term or condition of the Notes or Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

In these Conditions, “**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality,

(C) Transfers

Subject to paragraphs (F) and (G) below, a Note may be transferred, subject to the transfer being duly recorded in the Register and upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided*, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred each amounts to a Specified Denomination or a multiple thereof. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(D) Registration and delivery of Definitive Note Certificates

Within five business days of the surrender of a Definitive Note Certificate in accordance with paragraph (C) above, the Registrar will register the transfer and deliver a new Definitive Note Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**business day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the Transfer Agent has its Specified Office.

(E) No charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed periods

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations concerning transfers and registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Subordinated Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

So long as any Note remains outstanding, the Issuer shall not, without the prior written consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys, other than the issue of notes on a limited recourse basis for the sole purpose of making any loan to the Bank, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes, making the Subordinated Loan to the Bank pursuant to the Subordinated Loan Agreement or any future loans to the Bank or any other issue of notes as aforesaid (including derivative transactions on a limited recourse basis) and performing any act incidental to or necessary in connection with the foregoing including purchasing Notes in accordance with Condition 6 (E)), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions, the Trust Deed and the Subordinated Loan Agreement), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

5. INTEREST

On 5 April and 5 October of each year, commencing on 5 October 2017 and ending on 5 October 2027 (each an “**Interest Payment Date**”), or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement (with respect to the corresponding interest payment thereunder) which interest under the Subordinated Loan Agreement is equal to 7.50 per cent. per annum from (and including) 5 April 2017 to (but excluding) the Early

Repayment Date (as defined in the Subordinated Loan Agreement) and, provided that the Subordinated Loan is not prepaid on or before such date, from (and including) the Early Repayment Date to (but excluding) 5 October 2027 (the “**Repayment Date**”) at the Reset Rate of Interest (as defined in the Subordinated Loan Agreement).

If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. REDEMPTION AND PURCHASE

(A) Scheduled redemption

Unless previously prepaid or repaid, the Bank will be required to repay the Subordinated Loan (in full and not in part) on the day which is one Business Day (as defined in the Subordinated Loan Agreement) prior to the Repayment Date and, subject to such repayment, as set forth in the Subordinated Loan Agreement, all Notes then outstanding will, on the Repayment Date or as soon thereafter as such repayment of the Subordinated Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof together with accrued interest.

(B) Early redemption

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 10 days’ notice thereof to the Noteholders, the Trustee, the Principal Paying Agent and the Bank (which notice shall be irrevocable) in accordance with Condition 14 (*Notices*) at its principal amount together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof (to the extent that such amounts are received by the Issuer from the Bank pursuant to the Subordinated Loan Agreement) pursuant to Condition 8 (*Taxation*), if, immediately before giving such notice, the Issuer provides the Trustee with satisfactory evidence that the Issuer has received a notice of prepayment from the Bank pursuant to Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.5 (*Prepayment at the option of the Borrower*) or 7.6 (*Special Prepayment in the Event of Taxes or Increased Costs*) in each case of the Subordinated Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights (as defined in the Trust Deed)) from the Bank following prepayment of the Subordinated Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7 (*Payments*)) following receipt of such amounts, subject as provided in Condition 7 (*Payments*).

Prior to the publication of any notice of redemption referred to in this Condition 6(B), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 6(B). A copy of the Bank’s notice of prepayment or details of the circumstances contemplated by Clause 7.3 (*Special Prepayment by Reason of Amendment to CBR Regulations*), 7.4 (*Special Prepayment if the CBR does not issue the Borrower the Final Conclusion on or before the Approval Date*), 7.5 (*Prepayment at the option of the Borrower*) or 7.6 (*Special Prepayment in the Event of Taxes or Increased Costs*) of the Subordinated Loan Agreement (as the case may be) and the date fixed for redemption shall be set out in the certificate.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer (including any Officer’s Certificate) pursuant to this Condition 6(B) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer pursuant to this Condition 6(B), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(B), subject to Condition 7 (*Payments*).

(C) Write down of the Notes following a Write Down Event

Following receipt by the Issuer and the Trustee of a Write Down Event Notice (as defined in the Subordinated Loan Agreement), the Issuer shall promptly thereafter give notice to the Noteholders in accordance with Condition 14 (*Notices*) of the grounds for such Write Down Event and that on the relevant Write Down Measure Effective Date (as defined in the Subordinated Loan Agreement and as set out in the Write Down Event Notice):

- (a) interest on the Notes and (if any) additional amounts in an amount equal to the interest and (if any) additional amounts under the Subordinated Loan being written down and cancelled shall be automatically written down and cancelled on a *pro rata* basis and all reference to accrued and unpaid interest and additional amounts in the Conditions, the Trust Deed, the Agency Agreement and the Notes shall be construed accordingly;
- (b) Notes in an amount equal to the principal amount of the Subordinated Loan being written down and cancelled shall automatically be written down, such Notes shall be cancelled on a *pro rata* basis and in the case of a partial write down and cancellation of the Notes, all reference to the outstanding principal amount of the Notes in the Conditions, the Trust Deed, the Agency Agreement and the Notes shall be construed accordingly;
- (c) the Noteholders shall automatically be deemed to irrevocably waive their right to receive, and shall no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Notes, accrued and unpaid interest and (if any) additional amounts, in each case so written down and cancelled pursuant to paragraphs (a) and (b) above; and
- (d) all rights of the Noteholders for payment of any amounts under or in respect of the Notes (including, without limitation, accrued and unpaid interest and any additional amounts) and also subject to write down and cancellation as set out in the Write Down Event Notice shall become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Write Down Event Notice or the Write Down Measure Effective Date.

The Issuer shall give notice to the Noteholders in accordance with Condition 14 and to the Trustee of the aggregate Write Down Amount promptly after receiving notice thereof from the Bank together with a breakdown of the amount of accrued and unpaid interest and/or the amount of principal that will be written down.

(D) Compulsory sale

The Issuer may compel any holder of the Restricted Notes to sell its holding in such Notes, or may sell such holding on behalf of such holder, if such holder is not both a QIB and a QP.

(E) Purchase of Notes

The Subordinated Loan Agreement provides that the Bank or any of the Bank's subsidiaries or any Person on behalf of the Bank may at any time, to the extent permitted by applicable law, purchase or procure others to purchase for its or their account the Notes in the open market or by tender or by a private agreement at any price. The Notes so purchased may be held or resold (*provided that* such resale is in compliance with all applicable laws) or surrendered to the Registrar for cancellation.

The Notes so purchased, while held by or on behalf of the Issuer, the Bank or any such subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or otherwise for

the purposes of Condition 10(A) (*Meetings of Noteholders*) or for the purposes of passing any Extraordinary Resolution (as defined in the Trust Deed).

(F) Cancellation of Notes

All Notes which are surrendered to the Registrar for cancellation pursuant to Condition 6(E) (*Purchase of Notes*) will, subject to the prior written consent of the CBR, be cancelled and may not be reissued or resold.

(G) Disapplication of Certain Conditions

If the Subordinated Loan is not confirmed as Tier 2 Capital prior to the Approval Date (as such terms are defined in the Subordinated Loan Agreement), Condition 6(C) (*Write down of the Notes following a Write Down Event*) shall not apply.

The Issuer shall give notice to the Noteholders in accordance with Condition 14 and to the Trustee of any disapplication of provisions in these Conditions and/or the Subordinated Loan Agreement promptly after receiving notice thereof from the Bank.

7. PAYMENTS

(A) Principal

Payments of principal shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(B) Interest

Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(C) Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto, but in each case without prejudice to the provisions of Condition 8 (*Taxation*). In these Conditions, “**FATCA**” means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), and any intergovernmental agreement to implement the foregoing, any current or future regulations or agreements thereunder or official interpretations thereof.

(D) Payments on business days

If the due date for payments of any amount in respect of any Notes is not a business day, the holder of a Note will not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, “**business day**” means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, London, Moscow, New York and in the city where the Specified Office of the Principal Paying Agent is located.

(E) Record Date

Each payment of principal and/or interest due in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar’s Specified Office)

on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 7(A) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 7(A) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder). Each payment in respect of the Notes pursuant to Conditions 7(A) (*Principal*) and 7(B) (*Interest*) will be mailed to the holder of the relevant Note at his address appearing in the Register.

(F) **Accrued interest**

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, in respect of the first Interest Payment Date only, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement.

(G) **Payments by the bank**

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Issuer will require the Bank to make all payments of principal, interest and any additional amounts to be made pursuant to the Subordinated Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer. Pursuant to the Trust Deed, the Issuer has charged by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of itself and the Noteholders.

(H) **Currency other than U.S. dollars**

In respect of the Issuer’s obligations under Conditions 5 (*Interest*), 6 (*Redemption and Purchase*) and 8 (*Taxation*), and subject to the following sentence, if the Issuer receives any amount under the Subordinated Loan Agreement in a currency other than U.S. dollars, the Issuer’s obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Issuer receives upon conversion of such sum into U.S. dollars in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received by the Issuer. If the Issuer receives any payment from the Bank pursuant to Clause 12.4 (*Currency Indemnity*) of the Subordinated Loan Agreement with respect to amounts due under the Notes, the Issuer shall pay such sum to the Noteholders in accordance with this Condition 7 (*Payments*).

8. TAXATION

All payments of principal or interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Ireland, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax (the “**Relevant Tax Jurisdiction**”), unless such deduction or withholding is required by law.

In such event, the Issuer shall, subject as provided below, pay such additional payments as will result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive and retain (net of tax and any other deductions whatsoever) equivalent sums from the Bank under the Subordinated Loan Agreement. To the extent that the Issuer does not receive and retain any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained (net of tax and any other deductions

whatsoever) by, or for the account of, the Issuer pursuant to the provisions of the Subordinated Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, *provided that* no such additional amount will be payable:

- (i) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority of the Relevant Tax Jurisdiction; or (ii) is liable for such taxes, duties, assessments or governmental charges by reason of his having some connection with the Relevant Tax Jurisdiction other than the mere holding of such Notes or the receipt of payments in respect thereof;
- (ii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;
- (iii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in Ireland; or
- (iv) in respect of any combination of (i) through (iv).

Notwithstanding any other provision of the Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a **"FATCA Withholding"**). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used herein, **"Relevant Date"** means (i) the date on which the equivalent payment under the Subordinated Loan Agreement first becomes due but (ii) if the full amount payable by the Bank has not been received in New York by, or for the account of, the Issuer or the Principal Paying Agent pursuant to the Subordinated Loan Agreement on or prior to such date, means the date on which, the full amount plus any accrued interest shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14 (*Notices*).

Any reference in these Conditions or in the Trust Deed to payments of principal and/or interest in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Subordinated Loan Agreement or the Trust Deed.

If the Issuer or the Bank becomes subject at any time to any taxing jurisdiction other than Ireland or Russia, as the case may be, references in these Conditions to Ireland or Russia shall be construed as references to Ireland or Russia and/or such other jurisdiction.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing *provided that* any judgment or amount obtained as a result of such action or exercise of

rights must be entered or held or, as the case may be, registered in the name of the Trustee and shall be held or dealt with by or on behalf of the Trustee in accordance with the Trust Deed.

At any time after the occurrence of an Acceleration Event (as defined in the Subordinated Loan Agreement), or a Relevant Event (as defined in the Trust Deed), the Trustee (subject to the Non-Petition Covenant in Condition 1) may, at its discretion, and shall, if requested to do so in writing by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith, take the action permitted to be taken by the Issuer as lender under the Subordinated Loan Agreement (in the case of an Acceleration Event), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Subordinated Loan or the receipt in full of all principal and interest accrued under the Subordinated Loan following an Acceleration Event and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

The Trustee may, in making any determination under these Conditions, the Trust Deed or the Subordinated Loan Agreement, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or Auditor's liability in respect thereof is limited by a monetary cap or otherwise.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE LENDER

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Subordinated Loan Agreement, these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined below) or a Written Resolution (as defined below). Such a meeting may be convened on not less than 21 days' prior written notice by the Issuer or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be at least two persons present holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at least two persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; *provided, however*, that Reserved Matters (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which at least two persons present holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

None of the Issuer, the Bank, any Subsidiary of the Bank nor any holding company of the Bank and any Subsidiary of any such holding company who is or are also Noteholders shall be allowed to vote at a meeting or be included in a quorum.

An “**Extraordinary Resolution**“ means a resolution passed at a Meeting duly convened and held in accordance with Schedule 4 to the Trust Deed by a majority of no less than three quarters of the votes cast.

In addition, a resolution in writing signed by or on behalf of Noteholders holding at least 75 per cent. in principal amount of the Notes for the time being outstanding (a “**Written Resolution**”) will take effect as if it were an Extraordinary Resolution. A Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(B) Modification and waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions, the Trust Deed or, the Subordinated Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (other than, in each case, in respect of the Reserved Matters) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Notes, these Conditions or the Trust Deed or by the Bank of the terms of the Subordinated Loan Agreement, or determine that any Acceleration Event shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than, in each case, in respect of the Reserved Matters) and *provided* always that the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or Written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

(C) Substitution

The Trust Deed and the Subordinated Loan Agreement contain provisions to the effect that the Issuer may, having obtained the consent of the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including (i) the substitute obligor’s rights under the Subordinated Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes and its rights as Lender under the Subordinated Loan Agreement and (ii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, substitute any entity in place of the Issuer as creditor under the Subordinated Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) or the Issuer shall use its best endeavours to ensure that the substitute obligor does so. Any such substitution shall be binding on all the Noteholders.

(D) Exercise of powers

In connection with the exercise of any of its powers, trusts, authorities or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any. Noteholder be entitled to claim from the Issuer, the Bank or the Trustee or any other person any

indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, for the indemnification, security and prefunding of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment and any other action under the Trust Deed or the Subordinated Loan Agreement unless indemnified and/or secured (including by way of prefunding) to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Bank and any entity relating to the Issuer and the Bank without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its subsidiaries.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Subordinated Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Bank in respect of the Subordinated Loan Agreement.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; *provided, however*, that the Issuer shall at all times maintain (a) a Principal Paying Agent and a Registrar and (b) a Paying Agent and Transfer Agent having Specified Offices in at least one major European city approved by the Trustee (including Dublin, if so required by the guidelines of the Irish Stock Exchange).

As provided in, and subject to the provisions of, the Trust Deed, any Trustee for the time being may retire at any time upon giving not less than three months' notice in writing to the Issuer and the Bank without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a trustee (being a Trust Corporation (as defined in the Trust Deed)) in office after such retirement. In the event of a Trustee giving such notice, the Issuer shall use its best endeavours to procure a new trustee to be appointed. If the Issuer has not appointed a new trustee within 60 days of giving such notice or within 60 days after any Extraordinary Resolution as hereafter mentioned, the Trustee may procure a new trustee to be so appointed. The Noteholders shall (subject to certain conditions) together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless there remains a trustee hereof (being a Trust Corporation) in office after such removal. Notice of any change in the Trustee or any of the Agents shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

13. REPLACEMENT OF DEFINITIVE NOTE CERTIFICATES

If a Definitive Note Certificate is mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Irish Stock Exchange (as defined in the Trust Deed), be replaced at the Specified Office of the Registrar or the Transfer Agent upon payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, for so long as the Notes are listed on the Irish Stock Exchange, filed with the Companies Announcements Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Upon receipt of notice from the Bank that the Final Conclusion (as such term is defined in the Subordinated Loan Agreement) has been received in respect of the Subordinated Loan, the Issuer shall promptly instruct the Principal Paying Agent to provide notice thereof to the Noteholders.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to the Irish Stock Exchange and given in accordance with the rules of the Irish Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Irish Stock Exchange and given in accordance with the rules of the Irish Stock Exchange.

15. PROVISION OF INFORMATION

The Issuer shall, during any period in which it is not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a Note which is a “**restricted security**” within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

16. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Bank but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on the further Notes) so as to form to be consolidated and form a single series with the Notes (“**Further Notes**”). Any Further Notes shall be constituted by a deed supplemental to the Trust Deed. In relation to any such issue of Further Notes (i) the Issuer will enter into a further loan agreement with the Bank or an amendment or supplement to the Subordinated Loan Agreement on the same terms as the Subordinated Loan Agreement (except with regard to the principal amount and the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee would not materially prejudicial to the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such Further Notes also and/or new security

will be granted over any further loan agreement or the Subordinated Loan Agreement as so amended or supplemented to secure amounts due on the Notes and such Further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW AND JURISDICTION

The Notes, the Trust Deed, the Agency Agreement and the Subordinated Loan Agreement and any non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with, English law.

The Issuer has (i) submitted in the Trust Deed to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed and the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

The Notes will be evidenced on issue either (i) in the case of Regulation S Notes, by a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg; or (ii) in the case of Rule 144A Notes, by a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co, as nominee of DTC.

Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See *Book-Entry Procedures for the Global Notes*. On acquisition of a beneficial interest in a Regulation S Note, as represented by a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person (as defined in Regulation S) and that, prior to the expiration of 40 day distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes (i) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or (ii) to be a person who is eligible to take delivery in the form of an interest in the Rule 144A Global Note. See *Transfer Restrictions*.

Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See *Book-Entry Procedures for the Global Notes*. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See *Transfer Restrictions*.

Beneficial interests in a Global Note will be subject to certain restrictions on transfer set forth in such Global Note and in the Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A. The Rule 144A Global Note will bear the legends regarding such restrictions set forth under *Transfer Restrictions*. A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note, and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge

will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Amendments to the Terms and Conditions

In addition, the Global Notes will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Notes.

Notices

Notwithstanding Condition 14 (*Notices*) of the Notes, so long as the Global Notes are held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system, provided such other clearing system is regarded as a recognised clearing system by Irish Revenue Commissioners (an “**Alternative Clearing System**”), notices to Noteholders represented by the Global Notes may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System, *provided* that, for so long as the Notes are listed on the Irish Stock Exchange, and the guidelines of the Irish Stock Exchange so require, notice shall also be given in accordance with the guidelines published by the Irish Stock Exchange. Notices will be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to the relevant clearing system.

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears on the register of the Noteholders as holder of the Notes represented by a Global Note on the Clearing System Business Day immediately prior to the date of the relevant payment against presentation and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. Upon any payment of principal or interest on a Global Note, the amount so paid shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes. As used in this paragraph, “**Clearing System Business Day**” means Monday to Friday inclusive, except 25 December and 1 January.

Meetings

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes.

In considering the interests of Noteholders while a Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Cancellation

Cancellation of any Note required by the Conditions to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by Global Notes will become void unless it is presented for payment within a period of ten

years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

Exchange for Definitive Note Certificates

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates if: (i) interests in the relevant Global Notes are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC; or (B) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Definitive Note Certificates and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Note Certificates on or after the date specified in the notice.

The holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Note Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for interests evidenced by Definitive Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Notes (the “**Exchange Global Note**”) becomes exchangeable for Definitive Note Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Note Certificates issued in exchange for beneficial interests in the Exchange Global Note and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note.

Delivery

After the circumstances set out above have occurred, the relevant Global Note shall be exchanged in full for Definitive Note Certificates and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes; and (b) in the case of the Rule 144A Global Note, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB that is also a QP. Definitive Note Certificates issued in exchange for a beneficial interest in the Rule

144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under *Transfer Restrictions*.

Legends

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part (subject to the applicable minimum denomination) by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note representing a Rule 144A Note (the “**Rule 144A Definitive Note Certificate**”) bearing the legend referred to under *Transfer Restrictions*, or upon specific request for removal of the legend on a Rule 144A Definitive Note Certificate, the Issuer will deliver only Rule 144A Definitive Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

TRANSFER RESTRICTIONS

Prospective purchasers of the Notes are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby because of the following restrictions.

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is (a) a QIB that is also a QP; (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) not a participant-directed employee plan, such as a 401(k) plan; (d) acquiring such Note for its own account, or for the account of a QIB that is also a QP; (e) not formed for the purpose of investing in the Notes or the Issuer; and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provision of section 5 of the Securities Act provided by Rule 144A, and the Issuer is relying on an exemption from the Investment Company Act provided by section 3(c)(7) thereof;
- (2) it will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.\$200,000; and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book- entry depositaries;
- (3) it understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP; or (b) in an offshore transaction to non U.S. persons in accordance with Rule 903 or 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or another jurisdiction of the United States;
- (4) it understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is within the United States or is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and also a QP;
- (5) it understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE SUBORDINATED LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “**QIB**”) THAT IS ALSO A QUALIFIED PURCHASER (A “**QP**”) WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE “**INVESTMENT COMPANY ACT**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE MORE QIBs, EACH OF WHICH IS A QP WHO THE HOLDER HAS

INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES AND THAT CAN REPRESENT, IN EACH CASE, THAT IT: (A) IS A QIB THAT IS ALSO A QP; (B) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS; (C) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN; (D) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (E) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.\$200,000 IN RELIANCE ON RULE 144A; (F) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; AND (G) WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE; OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”) TO OR FOR THE ACCOUNT OR BENEFIT OF A PERSON KNOWN TO THE TRANSFEROR NOT TO BE A U.S. PERSON (AS DEFINED IN REGULATION S), BY PRE-ARRANGEMENT OR OTHERWISE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT BOTH A QIB AND A QP, THE ISSUER MAY (1) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (A) A U.S. PERSON WHO IS A QIB AND ALSO A QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (B) OUTSIDE THE UNITED STATES AND IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (2) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE BORROWER, THE ISSUER OR AN AFFILIATE OF EITHER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER, IN ANY CASE, AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN: (1) IT IS NOT, AND IT IS NOT USING THE ASSETS OF, A BENEFIT PLAN INVESTOR AS DEFINED IN

SECTION 3(42) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”); (2) IT IS NOT AND IS NOT USING THE ASSETS OF A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA), OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) SUBJECT TO LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN UNLESS THE PURCHASE AND HOLDING OF THIS NOTE WILL NOT VIOLATE SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS ARE DEEMED TO APPLY TO THAT PERSON;

- (6) it understands and acknowledges that its purchase and holding of such Rule 144A Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Rule 144A Notes or any interest therein: (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA; (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-U.S. plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the fiduciary responsibility and/or prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, and/or laws or regulations that provide that the assets of the Issuer could be deemed to include “plan assets” of such plan unless the purchase and holding of such Rule 144A Notes will not violate such similar law; and (c) it will not sell or otherwise transfer any such Rule 144A Note or interest to any person unless the same foregoing representations and warranties are deemed to apply from that person;
- (7) it acknowledges that the Issuer, the Borrower, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Borrower and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account;
- (8) it understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the foregoing acknowledgements, representations and agreements and applicable securities laws; and
- (9) it is relying on the information contained in this Prospectus in making its investment decision with respect to the Rule 144A Notes. It acknowledges that none of the Issuer, CBM or the Joint Lead Managers has made any representation to it with respect to the Issuer or CBM or the offering or sale of the Rule 144A Notes, other than the information contained in this Prospectus which has been delivered to it and upon which it is relying in making its investment decision with respect to the Rule 144A Notes. It has had access to such financial and other information concerning the Issuer, CBM and the Rule 144A Notes as it has deemed necessary in connection with its decision to purchase the Rule 144A Notes, including an

opportunity to ask questions of and request information from the Issuer, CBM and the Joint Lead Managers.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Regulation S Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and (b) it is not an affiliate of the Issuer, CBM or a person acting on behalf of such an affiliate;
- (2) it understands that such Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Notes except: (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP; or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;
- (3) the Issuer, CBM, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, CBM and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account;
- (4) it understands that the Regulation S Notes offered in reliance on Regulation S will be represented by the Regulation S Global Note. Prior to the expiration of the Distribution Compliance Period, before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;
- (5) it understands that the Regulation S Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE, THE SUBORDINATED LOAN IN RESPECT THEREOF FROM TIME TO TIME HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT, AND IT IS NOT USING THE ASSETS OF, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”); (2) IT IS NOT AND IS NOT USING THE ASSETS OF A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA), OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) SUBJECT TO LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN UNLESS THE PURCHASE AND HOLDING OF THIS NOTE WILL NOT VIOLATE SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON;

- (6) it understands and acknowledges that its purchase and holding of such Regulation S Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Regulation S Notes or any interest therein (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA; (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-U.S. plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the fiduciary responsibility and/or prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, and/or laws or regulations that provide that the assets of the issuer could be deemed to include “plan assets” of such plan unless the purchase and holding of such Regulation S Notes will not violate such similar law; and (c) it will not sell or otherwise transfer any such Regulation S Note or interest to any person unless the same foregoing representations and warranties are deemed to apply to that person; and
- (7) it understands that the Issuer may receive a list of participants holding positions in the Issuer’s securities from one or more book-entry depositories.

Book-Entry Procedures for the Global Notes

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See *Book-Entry Ownership* and *Settlement and Transfer of Notes* below.

Investors may hold their interests in the Global Notes directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including

safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Summary of Provisions Relating to the Notes while in Global Form*”, DTC will surrender the Rule 144A Global Note for exchange for Definitive Notes (which Definitive Notes will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing the Regulation S Notes will have an ISIN, a Common Code and a CFI Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note representing the Rule 144A Notes will have an ISIN, a Common Code, and a CUSIP number and will be deposited with a custodian (the “**DTC Custodian**”) for, and registered in the name of Cede & Co. as nominee of, DTC. The DTC Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note must look solely to DTC, Euroclear or Clearstream,

Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Certificate is held, or the nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent (as defined in the *Terms and Conditions of the Notes*) will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where

payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the DTC Custodian of the Rule 144A Global Note will instruct the Registrar to: (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class; and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will: (a) transmit appropriate instructions to the DTC Custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant; and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Notes among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any agent will have the responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of the Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of the Notes may be affected by such local settlement practices, and purchasers of the Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

TAXATION

The following is a general description of certain tax laws relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, either in those countries referred to or elsewhere. Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Russian Taxation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of interest payments on the corresponding Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date (possibly with retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaties and the eligibility of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- an individual Noteholder actually present in Russia for an aggregate period of less than 183 calendar days (including days of arrival to Russia and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted for an individual’s short term departure (less than 6 months) from Russia for medical treatment or education. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for withholding tax purposes an individual’s tax residency status should be determined on the date of income payment

(based on the number of Russian days in the 12-month period preceding the date of payment). The individual's final tax liability in the Russian Federation for the reporting calendar year should be determined based on the number of days spent in Russia in such calendar year; or

- a legal entity or organisation, in each case not organised under Russian law, which purchases, holds and/or disposes of the Notes otherwise than through a permanent establishment in Russia (as defined by Russian tax law) and which is not a Russian tax resident. Russian tax residence rules for organisations have been adopted in Federal Law N 376-FZ dated 24 November 2014 "On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organizations)" (the "**Federal Law**") and came into force from 1 January 2015. Generally, a foreign organisation should be recognized as a Russian tax resident pursuant to an applicable double tax treaty or if the place of actual management of such organisation is the Russian Federation (unless otherwise provided by an applicable double tax treaty).

A "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or organisation) who or which is not a Non-Resident Noteholder. More detailed analysis of Russian tax residency rules are disclosed in subsection "Russian tax residency rules" of the "Risk factors related to Russian taxation" section of this Prospectus.

Please note that terms "resident" and "non-resident" in the context of this Annex relate to tax residency only.

Taxation of the Notes

Resident Noteholders

Resident Noteholders are generally subject to Russian taxes with respect to income realised by them in connection with acquisition, ownership and/ or disposal of the Notes (including the interest received on the Notes). Resident Noteholders - Legal entities are subject to corporate income tax, while individuals are obligated to pay personal income tax on the respective income.

Taxation of Resident Noteholders – Individuals

Generally, Resident Noteholder that is an individual (natural person) is subject to all applicable Russian taxes in respect to the interest and other ancillary payments derived from the Issuer, unless otherwise stipulated under the Russian tax legislation or applicable double tax treaty.

Acquisition of Notes

The acquisition of Notes at market value in itself does not give rise to any Russian taxes. However, if the acquisition price is below fair market value (calculated under a specific procedure), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to deemed income received by individuals as a result of acquiring securities. In such a case deemed income will be subject to Russian personal income tax at 13% rate.

Sale or other disposal of the Notes

Sale and other disposal of the Notes by an individual Resident Noteholder gives rise to Russian personal income tax at 13% rate. The tax is levied on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal, calculated in Russian Rubles as prescribed under the Russian Tax Code, less any available cost deduction, including the original purchase price and deemed income taxed on acquisition and tax paid from such deemed income, if any, calculated in Russian Rubles as prescribed under the Russian Tax Code, if any).

Interest payments

Interest and other ancillary payments derived from the Issuer and received by the Russian Resident Noteholder – individual are subject to personal income tax at 13% rate.

Taxation of the Resident Noteholders – Legal Entities

A Resident Noteholder – Legal Entity is subject to all applicable Russian taxes in respect to the income received by it in respect to the acquisition, holding and disposal of the Notes, including interest and other ancillary payments. Generally, a 20% corporate income tax is levied in the respective taxable events.

As stated above the interest payments made to foreign organisations on debt obligations, arising in connection with issuance by foreign organisations of traded bonds, provided that the foreign organisation receiving interest income is tax resident in a jurisdiction having double tax treaty with Russia and has duly confirmed its tax residence prior to the date of receiving the interest income, should be treated as exempt from withholding tax in Russia.

However, there is a risk that Russian tax authorities will try to challenge exemption from the withholding tax the amounts of interest (coupon) income on the Notes paid to non-resident foreign entity under disposal of the Notes on the secondary equity market. For more detailed information please refer to subsection “*Tax might be withheld in the Russian Federation reducing their value*” of the “*Risk factors related to Russian taxation*” section of this Prospectus.

Non-Resident Noteholders

Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. Subject to what is stated in “*Taxation of Interest on the Subordinated Loan*”.

Non-Resident Noteholders also generally should not be subject to any Russian taxes in respect of any gains or other income realised on the Notes (including gains upon redemption, sale or other disposal of the Notes), provided that this income is not considered as being received from a source within Russia.

Taxation of the Non-Resident Noteholders – Individuals

Acquisition of the Notes

Generally, the acquisition of Notes at fair market value by a Non-Resident Noteholder who is an individual should not be considered as taxable income. However, if the transfer of legal title to the Notes takes place in Russia and the acquisition price is below fair market value (calculated under a specific procedure), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to deemed income received by individuals as a result of acquiring securities. In such a case deemed income may be subject to Russian personal income tax. The taxable income (subject to any available double tax treaty relief) will be calculated as the difference between the fair market price of the Notes and the documented acquisition expenses of the Noteholder.

Sale or other disposal of the Notes

In general, Non-Resident Noteholder - individuals are subject to Russian tax on their income from a sale of the Notes if such income is treated as received from Russian sources (e.g. the sale which takes place in Russia, for instance, through a Russian broker). The income the Non-Resident Noteholder – individual realised from a sale, exchange or disposal of the Notes and received from a Russian source will generally be subject to personal income tax at the rate of 30% payable on the gain from such disposal, calculated in Russian Rubles as prescribed under the Russian Tax Code, less any available cost deduction, including the original purchase price and deemed income taxed on acquisition and tax

paid from such deemed income, if any, calculated in Russian Rubles as prescribed under the Russian Tax Code) subject to any available double tax treaty relief.

Since the Russian Tax Code contains no clear definition of a sale taking place in Russia, there is an inherent risk that, given that a transaction is executed in Russia, and/or a party to the transaction is a Russian resident, the income from the sale of the Notes would be treated as received from a Russian source. In this case the Noteholders income from disposal of the Notes will be subject to tax in Russia.

If the disposal proceeds are paid by a tax agent (a Russian legal entity or a foreign legal entity carrying out activities in Russia through a permanent establishment which is a licenced broker, asset manager, management company or any other person that carries out operations under an agency agreement, a commission agreement or a brokerage contract), the applicable personal income tax should be withheld at source. If the tax is not withheld (i.e. if there is no tax agent), a Non-Resident Noteholder-individual, should file a tax return and pay tax in Russia on his/her own.

Depending on the double tax treaty between Russia and the tax jurisdiction of the Non-Resident Noteholder, income derived from a disposal of the Notes by a Non-Resident Noteholder may be exempt from Russian tax provided the stipulated conditions are met.

Double tax treaty relief

Application of the foreign tax credit in Russia

According to the general provisions of Russian tax law, the amounts of tax actually paid according to tax legislation of the foreign state by a taxpayer who is a Russian tax resident on the income received outside Russia could not be credited against Russian personal income tax liability of the taxpayer unless otherwise provided for by a relevant double tax treaty between Russia and that foreign state. Therefore, the taxpayer may have the right to make a foreign tax credit against its Russian personal income tax liabilities provided that all the following conditions are met:

- a taxpayer is a recognized the Russian tax resident in the tax period when the income taxable in Russia and in the foreign state was received;
- there is a valid double tax treaty between Russia and the foreign state, which provides for the foreign tax credit in the state of residence (Russia);
- the taxpayer can confirm the amount claimed for tax credit with the documents required by Russian tax law. Also, the tax authorities may request a confirmation of residency status, however, current provisions of the Russian Tax Code do not oblige the taxpayer to provide such evidence along with supporting documents when claiming a foreign tax credit.

If the above-mentioned conditions are not met, the taxpayer will not be able to apply foreign tax credit and reduce its tax liability in Russia.

Exemption

Russian legislation also prescribes how tax treaty benefits can be obtained via the tax agent, i.e. if tax on such income is subject to tax at source. Russian legislation requires the relevant claim and supporting documents to be filed to the tax agent or to the tax authorities (for refund of tax withheld).

At the same time the provisions of the law are not quite clear on how exemption should be claimed in terms of income, which is not subject to tax at source. Conservatively, an individual should submit to the Russian tax authorities a certificate confirming his/her tax residency in the other country, amongst other documents, to substantiate the treaty exemption.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of

interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders that are legal entities and organisations should not constitute a taxable event under Russian law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for Non-Resident Noteholders that are legal entities and organisations.

Interest on the Notes

Pursuant to the Russian Tax Code interest income received on the Notes by Non-Resident Noteholders should not be subject to Russian tax.

Sale or other disposal of the Notes

Income received by Non-Resident Noteholders that are legal entities from the sale or redemption of Notes should not be subject to Russian tax.

It should be noted, however that there is a risk that Russian tax authorities may try to challenge exemption from the withholding tax of the amounts of accrued interest (coupon) income on the Notes paid to non-resident seller under disposal of the Notes on the secondary market. Although in its clarifications Russian Ministry of Finance adheres to an unambiguous opinion that accrued interest income paid by Russian legal entities to non-resident foreign entities as part of purchase price at disposal of “traded” bonds issued by foreign organisations should not be subject to withholding tax in Russia, court practice with respect to Russian withholding tax on dispositions of “traded” bonds is inconsistent and negative rulings exist. There is a risk that payments from Russian counterparties to non-resident Noteholders under disposal of the Notes could be considered as income derived from sources in the Russian Federation and thus subject to Russian withholding tax.

Redemption of the Notes

Non-Resident Noteholders that are legal entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Double Tax Treaty Relief

Where proceeds on the Notes are received from a Russian source and are subject to Russian taxes, in order for the Non-Resident Noteholders, whether an individual, legal entity or organisation, provided it is the beneficial recipient, to receive the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed.

Currently a Non-Resident Noteholder that is a legal entity will need to provide the payer of income which is regarded a tax agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income and confirm that it is the beneficial owner of this income. However, the payer of income in practice may request additional documents confirming the entitlement and eligibility of such Non-Resident Noteholder to the benefits of the relevant double tax treaty in relation to income concerned. The certificate should confirm that the respective Non-Resident Noteholder is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty). This certificate generally should be apostilled or legalised. A notarised Russian translation of the certificate will have to be provided to the person which is regarded a tax agent. Non-Resident Noteholders that are legal entities or organisations

should consult their own tax advisers with respect to the possibilities to enjoy any double tax treaty relief and the relevant Russian procedures.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax applicable to income derived from Russian sources by a Non-Resident Noteholder that is a legal entity, for which double tax treaty relief is available, was withheld at source, a refund of the tax that was excessively withheld at source is possible by filing a claim with the Russian tax authorities within three years following the year in which the tax was withheld. If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder who is an individual for whom double tax treaty relief is available was withheld at source a refund of tax which was excessively withheld is possible by filing a claim with the Russian tax authorities within one year following the year in which the tax was withheld.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under an applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates. In practice a Non-Resident Noteholder when seeking a refund of Russian taxes excessively withheld at source may face similar difficulties as when trying to obtain advance tax relief under the applicable double tax treaties, as discussed above.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely therefore to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice. The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest on the Subordinated Loan

Under the Russian Tax Code interest payments by a Russian legal entity to a non-resident legal entity made under loan agreements are generally subject to Russian withholding income tax at the rate of 20%, unless such withholding is reduced or eliminated pursuant to an applicable double tax treaty. Calculation and withholding of the tax is performed by an entity which is paying out the income to the recipient. We believe that for the payments due from CBM under the Subordinated Loan Agreement including, inter alia, interest payments CBM should be considered as the tax agent.

However, interest income payable by Russian organisations on debt obligations that originate from issuance of traded securities by foreign organisations (as defined by the Russian Tax Code) shall not be subject to withholding of the tax by the tax agent, if the foreign organisation that is the issuer of the securities is resident in a jurisdiction that has an effective double tax treaty with Russia.

Tradable securities mentioned above are defined in the Russian Tax Code as securities and other debt obligations listed on a recognised stock exchange and/or settled through recognised depository-clearing organisations. The list of such recognised institutions has been approved by the Ministry of Finance of the Russian Federation. Debt obligations of Russian organisations shall be treated as originating from the issuance of tradable securities by the foreign issuer if a direct link to such issuance is contained in the loan agreement between the issuer and the Russian organisation and/or if

such a link is contained in terms of issuance and/or in a related prospectus, or can be confirmed by actual cash flows at the time of the placement of the securities.

For the withholding tax exemption to apply, the Issuer will have to submit to CBM a confirmation of its tax residency (the “**Certificate**”) certified by a competent body of Ireland prior to making an affected payment. This Certificate should be legalised through an apostil by a competent authority and be furnished with a Russian translation.

In the absence of the proper Certificate having been submitted as outlined above, the applicable rate of withholding tax on any interest payments would be 20% under Russian tax legislation.

CBM believes that based on the above summarised provisions of the Tax Code the mentioned withholding tax exemption shall apply to the issuance of the Notes, which shall effectively exempt from withholding taxation in Russia interest income payable by CBM to the Issuer and ultimately to the Noteholders connected with the issuance of the Notes.

If payments under the Subordinated Loan are subject to Russian withholding tax (as a result of which the Issuer would reduce payments made under the Notes by the amount of tax withheld), CBM will be obliged (subject to certain conditions) to increase payments under the Subordinated Loan Agreement as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging CBM to gross-up interest payments under the Subordinated Loan will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that the interest payments made by CBM under the Subordinated Loan Agreement will be reduced by the amount of the Russian income tax withheld by CBM at the rate of 20%, or such other rate as may be in force at the time of payment.

Value Added Tax

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia in respect of interest and principal payments under the Subordinated Loan.

Irish Taxation

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities and trusts. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20%) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
 - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
 - (ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and
- (c) one of the following conditions is satisfied:
 - (i) the Noteholder is resident for tax purposes in Ireland or, if not so resident, is otherwise within the charge to corporation tax in Ireland in respect of the interest; or
 - (ii) the interest is subject, under the laws of a relevant territory, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or
 - (iii) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
 - (A) from whom the Issuer has acquired assets;
 - (B) to whom the Issuer has made loans or advances; or
 - (C) with whom the Issuer has entered into a Swap Agreement,
 where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75% of the aggregate value of the assets of the Issuer, or
 - (iv) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iii) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

where for these purposes, the term

“Relevant Territory” means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

“Swap Agreement” means any agreement, arrangement or understanding that

- (A) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and
- (B) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), and one of the conditions set out in paragraph (c) above is satisfied, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is satisfied.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, pay related social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are

exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75% parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless (i) such holder is either resident or ordinarily resident in Ireland or (ii) such holder carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held or (iii) the Notes cease to be listed on a stock exchange in circumstances where the Notes derive their value or more than 50% of their value from Irish real estate, mineral rights or exploration rights.

Capital Acquisitions Tax

A gift or inheritance comprising Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33%) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying

company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

Certain U.S. Federal Income Tax Considerations

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. Persons considering acquiring the Notes should seek their own advice based on their particular circumstances from an independent tax adviser.

The following is a general description of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes to U.S. holders (as defined below). This discussion applies only to Notes that meet both of the following conditions:

- they are purchased by initial holders who purchase Notes at their "issue price", which will equal the first price to investors (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money; and
- they are held as capital assets.

This discussion does not describe all of the U.S. federal income tax consequences that may be relevant to holders in light of their particular circumstances (including consequences under the alternative minimum tax or net investment income tax) or to U.S. holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers or certain traders in securities or foreign currencies;
- persons holding Notes as part of a hedge, straddle, wash sale, conversion transaction or other integrated transaction or persons entering into a constructive sale with respect to the Notes;
- U.S. holders whose functional currency is not the U.S. dollar;
- Real estate investment trusts, regulated investment companies or grantor trusts; or
- tax exempt entities, or organisations, including an "individual retirement account" or "Roth IRA" as defined in Section 408 or 408A of the U. S. Internal Revenue Code of 1986, as amended (the "**Code**").

This discussion also does not address the U.S. federal income tax considerations that may be relevant to holders that participate in the tender offer by the Issuer that is occurring substantially concurrently with this offering. Additionally, the summary assumes that a substantial amount of the Notes that are sold pursuant to this offering are purchased by investors who are not holders of the Notes participating in the tender offer. Prospective purchasers who are holders of the Notes who participate in the tender offer should consult their own tax advisers concerning the U.S. federal income tax consequences to them of the acquisition of the Notes offered hereby and the sale of their Notes pursuant to the tender offer.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Notes and partners therein should consult their tax advisers as to the particular U.S. federal income tax consequences of acquiring, owning and disposing of the Notes.

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this Prospectus may affect the tax consequences described herein. Persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under other federal tax laws or the laws of any state, local or foreign taxing jurisdiction.

As used herein, the term “U.S. holder” means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organised in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

U.S. Federal Income Tax Characterisation of the Notes

No authority directly addresses the U.S. federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the U.S. Internal Revenue Service (“**IRS**”) as to their characterisation for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this discussion. Alternative characterisations include treatment of the Notes as beneficial ownership of the Subordinated Loan or as equity in the Issuer, which is a passive foreign investment company. Prospective investors should seek advice from their own tax advisers as to the consequences to them of alternative characterisations of the Notes for U.S. federal income tax purposes.

Payments of Interest

It is expected, and therefore this discussion assumes, that the Notes will be issued without original issue discount (“**OID**”) for U.S. federal income tax purposes. Accordingly, interest paid on a Note (including any additional amounts paid in respect of taxes required to be deducted or withheld) will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with such U.S. holder’s method of accounting for U.S. federal income tax purposes. If, however, the Notes’ principal amount exceeds the issue price by at least a de minimis amount, as determined under applicable Treasury regulations, a U.S. holder will be required to include such excess in income as OID, as it accrues, in accordance with a constant-yield method based on a compounding of interest before the receipt of cash payments attributable to this income.

Interest income with respect to a Note will constitute foreign source ordinary income for U.S. federal income tax purposes, which may be relevant in calculating a U.S. holder's foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to two specific classes of income. For this purpose, interest income on the Notes will constitute "passive category income" for most U.S. holders. The rules governing foreign tax credits are complex and U.S. holders should consult their own tax advisers regarding the availability of foreign tax credits in their particular circumstances.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (other than any amount attributable to accrued but unpaid interest, which will be taxable as ordinary income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in a Note. A U.S. holder's adjusted tax basis in a Note will generally equal the cost of such Note to the U.S. holder, decreased by the amount of any payments on a Note other than payments of stated interest. Gain or loss, if any, realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. The deductibility of capital losses is subject to limitations.

Substitution of the Issuer

Condition 10(C) of the Terms and Condition of the Notes provides that, in accordance with provisions of the Trust Deed and the Subordinated Loan Agreement, the Issuer may substitute any entity in place of the Issuer as creditor under the Subordinated Loan Agreement, as issuer and obligor in respect of the Notes and as obligor under the Trust Deed. Such a substitution of the Issuer of the Notes generally will not be regarded as a taxable event for U.S. holders provided that the substitution does not result in a change of payment expectations with respect to the Notes, which the Issuer believes should be the case. Nevertheless, no assurance can be provided that a substitution of the Issuer would not be treated as a taxable exchange which could result in adverse U.S. federal income tax consequences for U.S. holders. Each prospective investor should consult its own tax advisers regarding the consequences to it of an investment in the Notes and the possible consequences of a substitution of the Issuer of the Notes.

Further Issues

The Issuer may issue additional Notes as described under Condition 16 (*Further Issues*) of the Terms and Conditions of the Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such case, the additional Notes may be considered to have OID which may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. holder may be subject to U.S. backup withholding on these payments if the U.S. holder fails to provide an accurate taxpayer identification number or comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder generally will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS. Certain U.S. holders are not subject to backup withholding. U.S. holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Foreign Asset Reporting

Certain U.S. holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions), by attaching a completed IRS Form 8938, statement of Specified Foreign Financial Assets, with their tax return for each year in which they had an interest in the Notes. U.S. holders are urged to consult their tax advisers regarding information reporting requirements relating to their ownership and disposition of the Notes.

SUBSCRIPTION AND SALE

Summary of Subscription Agreement

Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, HSBC Bank plc, ING Bank N.V., London Branch, J.P. Morgan Securities plc, Raiffeisen Bank International AG, “REGION Broker Company” LLC, Société Générale and Unicredit Bank AG (collectively, the “**Joint Lead Managers**”), have, pursuant to the terms and conditions set forth in a subscription agreement dated 3 April 2027 (the “**Subscription Agreement**”), severally (and not jointly nor jointly and severally) agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100% of the principal amount of the Notes in the amounts set out below:

	Purchase commitment (U.S.\$)
Joint Lead Managers	
Citigroup Global Markets Limited	68,750,000
Credit Suisse Securities (Europe) Limited	68,750,000
HSBC Bank plc	68,750,000
ING Bank N.V., London Branch	68,750,000
J.P. Morgan Securities plc	68,750,000
Raiffeisen Bank International AG	68,750,000
“REGION Broker Company” LLC	50,000,000
Société Générale	68,750,000
Unicredit Bank AG	68,750,000
	600,000,000

CBM has agreed to pay certain commissions, fees, costs, expenses and taxes of the Issuer in connection with the Subordinated Loan and the offering of the Notes and to reimburse the Joint Lead Managers, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

Certain of the Joint Lead Managers have, directly or indirectly through affiliates, provided investment and commercial banking, lending, financial advisory and other services to the Issuer, the Borrower, and their affiliates from time to time, for which they have received monetary compensation. Certain of the Joint Lead Managers may from time to time also enter into swap and other derivative transactions with the Issuer, the Borrower and their affiliates. In addition, certain of the Joint Lead Managers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer, the Borrower, or their affiliates.

Certain of the Joint Lead Managers are lenders under CBM’s contemplated syndicated loan facility of up to U.S.\$500 million. See “*Capitalisation and Indebtedness*”.

CBM is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Joint Lead Managers and the Issuer therein.

Allocation of the Notes

The Issuer will, in connection with the allocation of the Notes in the Offering, consider among other factors whether or not the relevant investor seeking an allocation of the Notes has validly tendered or indicated a firm intention to tender the Existing Notes pursuant to the Tender Offer, and if so, the aggregate principal amount of such Existing Notes tendered or intended to be tendered by such investor. When considering allocations of the Notes, the Issuer intends to look favorably upon those investors who have, prior to the allocation of the Notes, tendered, or indicated their intention to the Issuer or the joint dealer managers pursuant to the Tender Offer to tender, the Existing Notes.

However, the Issuer is not obliged to allocate the Notes to an investor which has validly tendered or indicated a firm intention to tender the Existing Notes pursuant to the Tender Offer. Any allocations of the Notes, while being considered by the Issuer as set out above, will be made in accordance with customary allocation processes and procedures.

Selling Restrictions

United States

The Securities have not been and will not be registered under the Securities Act, or the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act and, in each case, in circumstances that will not require the Issuer to register under the Investment Company Act.

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the “**Distribution Compliance Period**”), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than pursuant to Rule 144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes only to persons whom they reasonably believe are QIBs and QPs who can represent that: (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) they are not participant-directed employee plans, such as a 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP; (e) they are not formed for the purpose of investing in the Issuer of the Notes; (f) each account for which they are purchasing will hold and transfer at least U.S.\$200,000 in principal amount of Notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries; and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

The Issuer, CBM and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason.

United Kingdom

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) represented, warranted and agreed that:

- (i) **Financial promotion:** it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act

2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- (ii) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Joint Lead Manager severally (and not jointly nor jointly and severally) represents, warrants and agrees that no Russian prospectus has been registered or is intended to be registered with respect to the Notes and the Notes have not been and are not intended to be registered in the Russian Federation. Consequently, each Joint Lead Manager represents, warrants and agrees with the Issuer, CBM and each of the other Joint Lead Managers that it and its affiliates have not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation unless and to the extent otherwise permitted under Russian law. Information provided in this Prospectus is not an offer, or invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian persons or entities unless and to the extent otherwise permitted by Russian law.

Since no Russian prospectus has been registered or is intended to be registered with the Central Bank of the Russian Federation with respect to the Notes, no person should at any time carry out any activities in breach of the restrictions set out above and applicable Russian law.

Ireland

Each Joint Lead Manager has severally (and not jointly nor joint and severally) represented, warranted and agreed that:

- (a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended, the “**MiFID Regulations**”), including, without limitation, Regulations 7 (Authorisation) and 152 (Restrictions on advertising) thereof, any codes of conduct made under the MiFID Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);
- (b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the “**Companies Act**”), the Central Bank Acts 1942-2015 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);
- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank under Section 1363 of the Companies Act; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

General

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) undertaken that it

has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer, the Subordinated Loan or CBM.

Other than the approval of the Prospectus by the Central Bank, no action has been or will be taken in any jurisdiction by the Issuer, CBM, or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by CBM, the Issuer, and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “**ERISA Plans**”), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labour “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the “**Plan Assets Regulation**”), and on those persons who are fiduciaries with respect to ERISA Plans.

Under a “look-through rule” set forth in the Plan Assets Regulation, if an ERISA Plan or a plan that is not subject to ERISA but that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the “**Code**”) (collectively, “**Plans**”), invests in an “equity interest” of an entity that is neither a “publicly offered security” nor a security issued by an investment company registered under the Investment Company Act, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets, unless an exception applies. Under one such exception to this look-through rule, the underlying assets of an entity in which a Plan makes an equity investment will not be considered “plan assets” if benefit plan investors own less than 25% of the value of each class of equity interest in the entity. For purposes of this 25% determination, the value of equity interests held by persons (other than benefit plan investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such a person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. The term “**benefit plan investor**” is defined in Section 3(42) of ERISA as: (a) an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to part 4 of subtitle B of Title I of ERISA, (b) a plan to which Section 4975 of the Code applies, or (c) any entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity. Where the value of an equity interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Subordinated Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Subordinated Loan. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders’ possible status as benefit plan investors. Accordingly, the Notes are not permitted to be acquired by any benefit plan investor.

Governmental plans, certain church plans and certain non U.S. plans, while not subject to the prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or other laws or regulations (such as the prohibited transaction rules of Section 503 of the Code) that are substantially similar to the foregoing provisions of ERISA or the Code and/or laws or regulations that provide that the assets of the issuer could be deemed to include “plan assets” of such plan (“**Similar Laws**”). Fiduciaries of such plans should consult with their counsel before purchasing any of the Notes or any interest therein.

By its purchase and holding of the Notes or any interest therein, the purchaser thereof will be deemed to have represented and agreed that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein: (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA; (b) it is not and is not using the assets of a governmental plan, church plan or non-U.S. plan subject to Similar Laws unless the purchase and holding of such Notes will not violate any such Similar Laws; and (c) it will not sell or otherwise transfer any such Notes or interest to any person unless the same foregoing representations and warranties are deemed to apply from that person.

The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult its legal counsel with respect to issues arising under ERISA, Section 4975 of the Code

and any Similar Laws and make its own independent decisions.

GENERAL INFORMATION

1. Application has been made to list the Notes on the Irish Stock Exchange, through Arthur Cox Listing Services Limited as Listing agent (“**ACLSL**”). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or to trading on the Main Securities Market. It is expected that the listing of the Notes will be granted on or about 5 April 2017. Transactions will normally be effected for delivery on the third working day after the day of the transaction, subject only to the issue of the Global Notes.
2. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The International Securities Identification Number (“**ISIN**”) of the Regulation S Global Note is XS1589106910 and the Common Code of the Regulation S Global Note is 158910691. The ISIN of the Rule 144A Global Note is US12504PAD24 and CUSIP of the Rule 144A Global Note is 12504PAD2.
3. For investors in the Notes, the yield to maturity is 7.50% per annum. This calculation is based on the coupon rate, length of time to maturity and market price. It assumes that the interest paid over the life of the Notes is reinvested at the same rate.
4. The Issuer estimates the amount of expenses related to the admission of the Notes to trading on the Irish Stock Exchange to be approximately EUR5,000.
5. No consents, approvals, authorisations or orders of any regulatory authorities in Ireland or the Russian Federation are required by the Issuer or CBM for their respective entry into, and performance of their obligations under, the Subordinated Loan Agreement or for the issue and performance of the Notes.
6. The issue of the Notes and the execution and performance by the Issuer of the Subordinated Loan Agreement and the other documents to be entered into by the Issuer in relation to the Notes have been approved and authorised by resolutions at meetings of the Board of the Directors of the Issuer dated 16 March 2017 and 30 March 2017. The Issuer will obtain all necessary consents, approvals and authorisations in Ireland in connection with the Subordinated Loan and the issue and performance of the obligations under the Notes.
7. The Subordinated Loan Agreement and the other documents to be entered into by CBM in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Supervisory Board of CBM dated 31 March 2017. CBM will obtain all necessary consents, approvals and authorisations in Russia in connection with the Subordinated Loan and the issue and performance of the obligations under the Notes.
8. There has been no significant change in the financial or trading position of CBM since 31 December 2016 and no material adverse change in the prospects of CBM since 31 December 2016.
9. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CBM is aware) which may have or have had during the 12 months prior to the date of this Prospectus a significant effect on the financial position or profitability of CBM.
10. Since 31 December 2016, there has been no material adverse change in the financial position or prospects of the Issuer.
11. In the 12 months preceding the date of the Prospectus, there have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or

threatened of which the Issuer is aware) which may have or have had a significant effect on the financial position or profitability of the Issuer.

12. Neither CBM, nor the Issuer has entered into any material contracts outside the ordinary course of business which could result in CBM or the Issuer becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes or CBM's ability to meet its obligations under the Subordinated Loan Agreement.
13. Until the maturity date or earlier repayment of the Notes, copies (and certified English translations where documents at issue are not in English, unless indicated otherwise below) of the following documents may be inspected at and are available in physical form at the registered office of the Issuer and the specified offices of the Trustee and the Principal Paying Agent in London during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):
 - (a) a copy of this Prospectus along with any supplement to this Prospectus;
 - (b) the Constitution of the Issuer;
 - (c) the charter of CBM (an English copy which is available for information purposes only and has not been certified);
 - (d) the Financial Statements, including the related independent auditors' reports in respect thereof;
 - (e) the audited financial statements of the Issuer as at and for the years ended 31 December 2016 and 2015, including the related independent auditors' reports in respect thereof;
 - (f) the Subordinated Loan Agreement;
 - (g) the Trust Deed; and
 - (h) the Agency Agreement.
14. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes or the Subordinated Loan.
15. Citigroup Global Markets Deutschland AG will act as Registrar in relation to the Notes.
16. The loan to value ratio is 100%. Interest and principal on the Subordinated Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.
17. There are no potential conflicts of interest between any duties of the Supervisory Board of CBM to CBM, and their private interests and/or other duties.
18. The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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CREDIT BANK OF MOSCOW
(public joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2016

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Independent Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (public joint-stock company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audited entity: Credit Bank of Moscow (public joint-stock company).

Registration number in the Unified State Register of Legal Entities 1027739555282.

Moscow, Russia.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration number in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.



<i>Impairment of loans to customers</i>	
Please refer to the note 13 in the consolidated financial statements.	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The impairment of loans to customers is estimated by management through application of judgment and use of highly subjective assumptions.</p> <p>Due to the significance of loans to customers (representing 40% of total assets) and the related estimation uncertainty, this is considered a key audit risk.</p> <p>We focused on adequacy of collective impairment allowance for loans to corporate clients calculation versus historical losses incurred. We paid particular attention to assumptions and methodology used for calculation of impairment allowance for loans to corporate clients, including analysis of future cash flows for collateralized loans with signs of impairment.</p> <p>For loans to individuals we focused on key assumptions and judgements made by the Group in calculation of impairment allowance.</p>	<p>We assessed and tested the design and operating effectiveness of the controls over impairment identification for loans to corporate clients.</p> <p>With respect to not impaired loans to corporate clients, where impairment is calculated based on historic data, we assessed whether historic experience was reflective of the losses incurred in the portfolio based upon the current economic environment and the current circumstances of the borrowers by comparing historical information to our own assessment.</p> <p>For a sample of exposures that were subject to an individual impairment assessment, we specifically challenged the Group's assumptions on the expected future cash flows, including the value of realizable collateral based on our own understanding and available market information.</p> <p>For impairment of loans to individuals calculated using statistical models, we tested the basis and operation of those models and the data used.</p> <ul style="list-style-type: none"> • We tested whether historical losses are calculated accurately and compared main assumptions to our own assessment in relation to key inputs. • We tested system-generated reports for impairment calculation in respect of completeness and accuracy of data used and the calculations within the reports. We also assessed IT controls over timely reflection of default events in the underlying systems. <p>We also assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk.</p>



Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended 31 December 2016 but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report of findings from procedures performed in accordance with the requirements of the Federal Law dated 2 December 1990 No. 395-1 On Banks and Banking Activity

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2017 as established by the Bank of Russia; and
- compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to analyses, inspections of documents, comparisons of the Bank's internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of elements of the Group's internal control and organisation of its risk management systems with requirements established by the Bank of Russia, we found that:

- as at 31 December 2016, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
- the Bank's internal documentation, effective on 31 December 2016, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
- as at 31 December 2016, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2016, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2016, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2016 the Supervisory Board and Executive Management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.



Our procedures with respect to elements of the Group's internal control and organisation of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.

The engagement partner responsible for the audit resulting in this independent auditor's report is:

Kolosov A. E.

JSC "KPMG"

Moscow, Russia

15 March 2017



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CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016

	Notes	2016 RUB'000	2015 RUB'000
Interest income	4	113 398 443	89 210 510
Interest expense	4	(73 099 118)	(59 922 036)
Net interest income	4	40 299 325	29 288 474
Provision for impairment of loans	13	(29 783 276)	(26 035 950)
Net interest income after provision for impairment of loans		10 516 049	3 252 524
Fee and commission income	5	13 393 746	9 342 662
Fee and commission expense	5	(2 246 735)	(1 717 768)
Net gain on financial instruments at fair value through profit or loss		234 843	1 201 576
Net realized gain (loss) and impairment of available-for-sale assets		1 207 698	(400 913)
Net foreign exchange gains		6 065 151	2 742 778
State deposit insurance scheme contributions		(920 428)	(707 566)
Operating lease income		1 252 106	41 839
Other operating losses, net		(548 803)	(564 752)
Non-interest income		18 437 578	9 937 856
Operating income		28 953 627	13 190 380
Salaries and employment benefits	6	(7 700 313)	(5 518 561)
Administrative expenses	6	(5 259 675)	(4 201 011)
Depreciation of property and equipment	14	(1 481 345)	(618 295)
Provisions for impairment of other assets and credit related commitments	7	(777 758)	(907 971)
Operating expense		(15 219 091)	(11 245 838)
Profit before income taxes		13 734 536	1 944 542
Income tax	8	(2 860 919)	(435 071)
Profit for the year		10 873 617	1 509 471
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
- revaluation of buildings		(102 089)	(433 440)
- income tax for revaluation of buildings		20 418	86 688
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
<i>Revaluation reserve for available-for-sale securities:</i>			
- net change in fair value		1 557 727	2 021 394
- net change in fair value transferred to profit or loss		(1 269 319)	(149 397)
- income tax related to revaluation reserve for securities		(57 682)	(374 398)
<i>Exchange differences on translation:</i>			
- exchange differences on translation		45 076	-
- income tax related to exchange differences on translation		(5 635)	-
Other comprehensive income for the year, net of tax		188 496	1 150 847
Total comprehensive income for the year		11 062 113	2 660 318
Basic and diluted earnings per share (in RUB per share)	32	0.46	0.09

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.



CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2016

	Notes	31 December 2016 RUB'000	31 December 2015 RUB'000
ASSETS			
Cash and cash equivalents	9	373 326 515	138 014 586
Obligatory reserves with the Central Bank of the Russian Federation		7 286 909	5 936 111
Deposits in credit and other financial institutions	10	403 480 148	277 295 869
Financial instruments at fair value through profit or loss, including	11	83 908 535	72 136 989
- <i>pledged under sale and repurchase agreements</i>	11	6 543 543	2 654 432
Available-for-sale securities, including	12	45 903 483	87 402 909
- <i>pledged under sale and repurchase agreements</i>	12	19 818 447	2 115 753
Loans to customers	13	626 535 060	593 065 265
- <i>loans to corporate customers</i>	13	533 470 046	482 423 222
- <i>loans to individuals</i>	13	93 065 014	110 642 043
Property and equipment	14	21 278 058	7 004 418
Other assets	15	6 249 914	27 344 481
Total assets		1 567 968 622	1 208 200 628
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	247 169 523	4 044 647
Deposits by credit and other financial institutions	17	381 624 465	84 659 913
Deposits by customers	18	689 495 720	898 692 231
- <i>deposits by corporate customers</i>	18	440 842 162	697 763 224
- <i>deposits by individuals</i>	18	248 653 558	200 929 007
Debt securities issued	19	137 203 416	121 154 765
Deferred tax liability	8	189 860	2 380 552
Other liabilities	20	8 885 063	4 930 058
Total liabilities		1 464 568 047	1 115 862 166
Equity			
Share capital	21	24 741 640	24 741 640
Additional paid-in capital		35 047 463	35 047 463
Revaluation surplus for buildings		687 505	769 176
Revaluation reserve for available-for-sale securities		450 796	220 070
Currency translation reserve		39 441	-
Retained earnings		42 433 730	31 560 113
Total equity		103 400 575	92 338 462
Total liabilities and equity		1 567 968 622	1 208 200 628

Commitments and Contingencies

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Chairman of the Management Board

Chief Accountant


 Vladimir A. Chubar

 Svetlana V. Sass

The consolidated statement of financial position is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2016

	Notes	2016 RUB'000	2015 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		109 336 595	82 579 116
Interest payments		(69 792 574)	(57 056 559)
Fees and commission receipts		13 714 257	9 853 178
Fees and commission payments		(2 246 735)	(1 717 768)
Net receipts from operations with securities		1 327 569	38 301
Net receipts (payments) from foreign exchange		3 037 123	(1 246 606)
State deposit insurance scheme contributions payments		(851 118)	(670 637)
Net other operating income receipts		242 458	1 023 813
Operating leases income receipts		1 241 135	-
Salaries and employment benefits paid		(7 684 268)	(5 456 036)
Administrative expenses paid		(4 990 375)	(4 883 334)
Income tax paid		(3 413 817)	(973 465)
Operating cash flows before changes in operating assets and liabilities		39 920 250	21 490 003
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(1 350 070)	(2 559 553)
Deposits in credit and other financial institutions		(177 327 458)	(243 752 224)
Financial instruments at fair value through profit or loss		(11 390 215)	(19 468 573)
Loans to customers		(95 122 562)	(208 355 528)
Other assets		1 131 869	(13 930 901)
Increase (decrease) in operating liabilities			
Deposits by the Central Bank of the Russian Federation		249 438 913	(15 523 831)
Deposits by credit and other financial institutions except syndicated and subordinated loans		319 980 875	37 250 376
Deposits by customers except subordinated loans		(128 547 707)	498 370 144
Promissory notes issued		238 088	(3 966 999)
Other liabilities		1 166 885	23 546
Net cash from operations		198 138 868	49 576 460
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale securities		(51 859 409)	(127 350 888)
Proceeds from disposal and redemption of available-for-sale securities		80 456 809	59 860 188
Net (payment) receipt on acquisition of subsidiaries		(193 630)	2 576 481
Purchase of property and equipment		(912 960)	(479 906)
Sale of property and equipment		76 958	3 312
Purchase of investment property		(370 000)	-
Net cash from (used in) investing activities		27 197 768	(65 390 813)

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2016

	Notes	2016 RUB'000	2015 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		-	29 690 654
Proceeds from subordinated deposits		-	20 828 090
Repayment of subordinated deposits		(700 857)	-
Proceeds from syndicated borrowings		-	251 237
Repayment of syndicated borrowings		-	(22 696 240)
Proceeds from issuance of other bonds		44 535 809	3 000 000
Repayment of other bonds		(14 870 106)	(11 998 080)
Net cash from financing activities		28 964 846	19 075 661
Effect of exchange rates changes on cash and cash equivalents		(18 989 553)	16 056 357
Change in cash and cash equivalents		235 311 929	19 317 665
Cash and cash equivalents, beginning of the period		138 014 586	118 696 921
Cash and cash equivalents, end of the period	9	373 326 515	138 014 586

Chairman of the Management Board

Chief Accountant


 Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital	Additional paid-in capital	Shares in the process of issue	Revaluation surplus for buildings	Revaluation reserve for available-for-sale securities	Currency translation reserve	Retained earnings	Total equity
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
1 January 2015	15 329 692	9 768 757	5 000 000	1 115 928	(1 277 529)	-	30 050 642	59 987 490
Total comprehensive income for the year	-	-	-	(346 752)	1 497 599	-	1 509 471	2 660 318
Shares issued (note 21)	9 411 948	25 278 706	(5 000 000)	-	-	-	-	29 690 654
31 December 2015	24 741 640	35 047 463	-	769 176	220 070	-	31 560 113	92 338 462
Total comprehensive income for the year	-	-	-	(81 671)	230 726	39 441	10 873 617	11 062 113
31 December 2016	24 741 640	35 047 463	-	687 505	450 796	39 441	42 433 730	103 400 575

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 91 branches, 1 026 ATMs and 5 725 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			31 December 2016	31 December 2015
CBOM Finance p.l.c.	Ireland	Raising finance	100%	100%
MKB-Leasing Group	Russia	Finance leasing	100%	100%
INKAKHRAN Group	Russia	Cash handling	100%	100%
CBM Ireland Leasing Limited	Ireland	Operating leasing	100%	-
LLC Bank SKS	Russia	Investment banking	100%	-
CJSC Mortgage Agent MKB	Russia	Raising finance	100%	100%
LLC Mortgage Agent MKB 2	Russia	Raising finance	100%	-

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", CJSC "Mortgage Agent MKB" and "LLC Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014. "LLC Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2016. CBM Ireland Leasing Limited was established for operating leasing of aircrafts. In August 2016 the Bank acquired 100% of shares in LLC Bank SKS to develop investment banking activities (note 33).

Shareholders

The Bank's shareholders as at 31 December 2016 are:

- LLC Concern Rossium - 56.83%
- RegionFinanceResurs, JSC – 8.19%
- LLC IC Algoritm – 5.39%
- European Bank for Reconstruction and Development (EBRD) – 4.54%
- LLC Savings Management – 3.86%
- RBOF Holding Company I Ltd - 2.68%
- JSC EG Capital Partners – 1.99%

- International Finance Corporation (IFC) – 1.69%
- PJSC Saint-Petersburg Bank – 1.53%
- JSC EFG Assets Management – 1.34%
- Powerboom Investments Limited – 1.32%
- Other shareholders - 10.64%.

The majority shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale securities are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries except for CBM Ireland Leasing Limited, whose functional currency is USD, is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Foreign currencies, particularly USD and euro, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and euro against RUB, defined by the CBR:

	31 December 2016	31 December 2015
USD	60.6569	72.8827
Euro	63.8111	79.6972

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 in respect of loan impairment estimates, in note 14 in respect of buildings revaluation, in note 31 in respect of estimates of fair values of financial assets and liabilities.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and nostro accounts with the Central Bank of the Russian Federation and deposits in credit and other financial institutions with maturity of less than one month in cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments which are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central Bank of the Russian Federation and deposits by credit and other financial institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and deposits in credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments (“net investment in leases”) is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term.

Group as lessee

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	50
Furniture and other property	4-6
Computers and office equipment	4
Vehicles	5
Aircrafts	20-30

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircrafts). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably. Financial guarantee liabilities and allowance for credit related commitments are included in other liabilities.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service has been provided.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 9 Financial instruments

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement* and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

(ii) Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months (‘12-month ECL’) or expected credit losses resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

(iii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

(iv) Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt the standard earlier.

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements. Currently the Group is in the process of development of IFRS 9 implementation plan.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

(c) IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(d) Other amendments

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-Based Payment*).

- (e) Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2017. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2016 RUB'000	2015 RUB'000
Interest income		
Loans to customers	81 818 464	70 292 773
Financial instruments at fair value through profit or loss and available-for-sale securities	12 129 905	9 748 051
Deposits in credit and other financial institutions and the Central Bank of the Russian Federation	19 450 074	9 169 686
	113 398 443	89 210 510
Interest expense		
Deposits by customers	(53 928 109)	(44 195 297)
Debt securities issued	(10 772 522)	(11 398 722)
Deposits by credit and other financial institutions and the Central Bank of the Russian Federation	(8 398 487)	(4 328 017)
	(73 099 118)	(59 922 036)
Net interest income	40 299 325	29 288 474

5 Net fee and commission income

	2016 RUB'000	2015 RUB'000
Fee and commission income		
Cash handling	2 588 802	1 546 129
Plastic cards	2 383 794	1 923 007
Guarantees and letters of credit	2 008 993	1 591 936
Insurance contracts processing	1 932 198	1 276 027
Settlements and wire transfers	1 755 045	1 040 696
Other cash operations	1 654 829	923 604
Currency exchange commission	472 953	353 201
Opening and maintenance of bank accounts	446 071	272 983
Other	151 061	415 079
	13 393 746	9 342 662
Fee and commission expense		
Settlements, wire transfers and plastic cards	(2 040 174)	(1 569 293)
Other	(206 561)	(148 475)
	(2 246 735)	(1 717 768)
Net fee and commission income	11 147 011	7 624 894

6 Salaries, employment benefits and administrative expenses

	2016 RUB'000	2015 RUB'000
Salaries	6 082 179	4 286 486
Social security costs	1 517 386	1 102 588
Other	100 748	129 487
Salaries and employment benefits	7 700 313	5 518 561
Occupancy	1 120 972	816 209
Advertising and business development	906 634	921 701
Property maintenance	660 098	396 450
Security	619 451	349 277
Operating taxes	585 528	531 235
Write-off of low-value fixed assets	336 050	90 958
Communications	184 625	129 379
Property insurance	182 543	91 887
Legal and consulting services	182 281	95 941
Computer maintenance and software expenses	164 161	166 357
Transport	122 914	272 045
Loss on revaluation of buildings	69 067	223 672
Other	125 351	115 900
Administrative expenses	5 259 675	4 201 011

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	2016 RUB'000	2015 RUB'000
Provision for impairment of other assets	507 127	(889)
Provision for impairment of credit related commitments	270 631	908 860
Other provisions	777 758	907 971

8 Income tax

	2016 RUB'000	2015 RUB'000
Current tax charge	5 095 465	476 605
Deferred taxation	(2 234 546)	(41 534)
Income tax expense	2 860 919	435 071

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2016 and 2015.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	2016	%	2015	%
	RUB'000		RUB'000	
Income before tax	13 734 536		1 944 542	
Income tax using the applicable tax rate	2 746 907	20.0%	388 908	20.0%
Income taxed at lower rates	(27 808)	(0.2%)	(5 341)	(0.3%)
Net non-deductible costs	141 820	1.0%	51 504	2.7%
Income tax expense	2 860 919	20.8%	435 071	22.4%

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows.

RUB'000	Balance	Recognized	Recognized	Recognized on	Balance
	1 January 2016	in profit or	in other	acquisition of	31 December
		loss	comprehensive	subsidiary	2016
			income and		
			equity		
Deposits in credit and other financial institutions	2 591	(2 218)	-	-	373
Financial instruments at fair value through profit or loss	172 858	34 435	-	-	207 293
Available-for-sale securities	1 953 830	(3 666 412)	57 682	-	(1 654 900)
Loans to customers	1 254 542	1 422 827	-	-	2 677 369
Property and equipment	317 092	(63 583)	(20 418)	-	233 091
Other assets	(710 321)	263 880	-	955	(445 486)
Deposits by credit and other financial institutions	382	(230)	-	-	152
Deposits by customers	12 069	35 918	-	-	47 987
Debt securities issued	36 733	(11 589)	-	-	25 144
Currency translation reserve	-	-	5 635	-	5 635
Other liabilities	(659 224)	(247 574)	-	-	(906 798)
Total deferred tax liability (asset)	2 380 552	(2 234 546)	42 899	955	189 860

RUB'000	Balance	Recognized	Recognized	Recognized on	Balance
	1 January 2015	in profit or	in other	acquisition of	31 December
		loss	comprehensive	subsidiary	2015
			income and		
			equity		
Deposits in credit and other financial institutions	2 836	(245)	-	-	2 591
Financial instruments at fair value through profit or loss	(2 200)	175 058	-	-	172 858
Available-for-sale securities	334 840	1 244 592	374 398	-	1 953 830
Loans to customers	1 531 144	(276 602)	-	-	1 254 542
Property and equipment	476 077	(59 212)	(86 688)	(13 085)	317 092
Other assets	(48 741)	(645 099)	-	(16 481)	(710 321)
Deposits by credit and other financial institutions	19 918	(19 536)	-	-	382
Deposits by customers	390	11 679	-	-	12 069
Debt securities issued	45 835	(9 102)	-	-	36 733

RUB'000	Balance 1 January 2015	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized on acquisition of subsidiary	Balance 31 December 2015
Other liabilities	(163 764)	(463 067)	-	(32 393)	(659 224)
Total deferred tax liability (asset)	2 196 335	(41 534)	287 710	(61 959)	2 380 552

Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income comprise the following:

RUB'000	2016			2015		
	Amount before tax	Tax benefit / (expense)	Amount net-of-tax	Amount before tax	Tax benefit / (expense)	Amount net-of-tax
Revaluation surplus for buildings	(102 089)	20 418	(81 671)	(433 440)	86 688	(346 752)
Revaluation reserve for available-for-sale securities	288 408	(57 682)	230 726	1 871 997	(374 398)	1 497 599
Currency translation reserve	45 076	(5 635)	39 441	-	-	-
Other comprehensive income	231 395	(42 899)	188 496	1 438 557	(287 710)	1 150 847

9 Cash and cash equivalents

	31 December 2016 RUB'000	31 December 2015 RUB'000
Cash on hand	18 762 889	17 344 885
Correspondent account with the Central Bank of the Russian Federation	22 767 534	27 453 843
Nostro accounts with other banks		
rated from AA+ to AA-	1 132 588	5 328 877
rated from A+ to A-	3 620 669	5 690 810
rated from BBB+ to BBB-	74 357 432	6 830 951
rated from BB+ to BB-	873 138	882 723
rated from B+ to B-	26 880	184 616
not rated	518 223	877 347
Total nostro accounts with other banks	80 528 930	19 795 324
Deposits in credit and other financial institutions with maturity of less than 1 month		
rated from A+ to A-	5 051 814	17 618 251
rated from BBB+ to BBB-	9 607 911	6 385 399
rated from BB+ to BB-	12 444 223	12 850 750
rated from B+ to B-	64 197 877	21 887 770
not rated	159 965 337	14 678 364
Total deposits in credit and other financial institutions with maturity of less than 1 month	251 267 162	73 420 534
Total cash and cash equivalents	373 326 515	138 014 586

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was

available for withdrawal at the period end.

As at 31 December 2016, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 228 615 945 thousand (31 December 2015: RUB 50 735 211 thousand).

As at 31 December 2016, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 278 955 216 thousand (31 December 2015: RUB 56 143 699 thousand).

As at 31 December 2016, not rated deposits in credit and other financial institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell (reverse repo) in the amount of RUB 158 264 335 thousand (31 December 2015: RUB 14 478 366 thousand).

As at 31 December 2016, the Group has three counterparties (31 December 2015: one counterparty) whose nostro accounts with other banks and deposits with maturity of less than 1 month exceed 10% of total nostro accounts with other banks and deposits with maturity of less than 1 month from credit and other financial institutions. The gross value of these balances as at 31 December 2016 is RUB 256 992 973 thousand (31 December 2015: RUB 17 618 251 thousand).

Information about the currency and maturity and effective interest rates of cash and cash equivalents is presented in note 29.

10 Deposits in credit and other financial institutions

	31 December 2016 RUB'000	31 December 2015 RUB'000
Term deposits		
rated from BBB+ to BBB-	-	44 132 015
rated from BB+ to BB-	1 505 895	22 211 830
rated from B+ to B-	167 063 240	26 076 109
rated from CCC+ to CCC-	29 558 065	27 792 362
not rated	205 352 948	157 083 553
Total deposits in credit and other financial institutions	403 480 148	277 295 869

No amounts of deposits in credit and other financial institutions are impaired or past due.

As at 31 December 2016, receivables under reverse sale and repurchase agreements included in deposits in credit and other financial institutions are RUB 397 590 782 thousand (31 December 2015: RUB 238 815 412 thousand).

As at 31 December 2016, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 483 281 200 thousand (31 December 2015: RUB 269 671 374 thousand).

As at 31 December 2016 included in not rated and rated from CCC+ to CCC- deposits in credit and other financial institutions are receivables in the amount of RUB 232 989 267 thousand (31 December 2015: RUB 181 062 949 thousand) secured by highly liquid rated debt securities under agreements to resell (reverse repo).

As at 31 December 2016, the Group has two counterparties (31 December 2015: three counterparties) whose deposit balances exceed 10% of total deposits in credit and other financial institutions. The gross value of these balances as at 31 December 2016 is RUB 365 788 181 thousand (31 December 2015: RUB 210 587 665 thousand).

Information about the currency and maturity and effective interest rates on deposits in credit and

other financial institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2016 RUB'000	31 December 2015 RUB'000
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	1 047 292	508 810
Russian Government eurobonds	1 744 952	-
Moscow Government bonds	-	223 936
Regional authorities and municipal bonds	4 298 054	3 391 004
Corporate bonds		
rated AAA	-	170 475
from BBB+ to BBB-	33 601 949	22 847 946
from BB+ to BB-	19 614 418	20 382 401
from B+ to B-	8 582 567	15 260 063
not rated	5 925 802	5 771 732
Equity investments	947	-
Derivative financial instruments	2 549 011	926 190
Total held by the Group	77 364 992	69 482 557
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Russian Government eurobonds	267 767	-
Regional authorities and municipal bonds	-	2 303 352
Corporate bonds		
from BBB+ to BBB-	315 016	219 288
from BB+ to BB-	5 960 760	131 792
Total pledged under sale and repurchase agreements	6 543 543	2 654 432
Total financial instruments at fair value through profit or loss	83 908 535	72 136 989

No financial instruments at fair value through profit or loss are past due.

As at 31 December 2016, debt instruments in the amount of RUB 64 806 957 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2015: RUB 64 464 969 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2016 and 2015 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resulting unrealised gains and losses on these unmaturing contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2016 RUB'000	2015 RUB'000	2016	2015
Buy RUB sell USD				
Less than 3 months	147 666 979	46 951 167	61.8561	72.0062
Between 3 months and 6 months	3 336 130	-	62.3000	-

CREDIT BANK OF MOSCOW (public joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
for the year ended 31 December 2016

	Notional amount		Weighted average contractual exchange rates	
	2016 RUB'000	2015 RUB'000	2016	2015
Buy USD sell RUB				
Less than 3 months	7 445 050	14 527 633	70.5146	73.8118
Between 1 years and 2 years	-	7 078 650	-	70.7865
Buy USD sell EUR				
Less than 3 months	2 552 444	3 984 860	1.0678	1.0978
Between 3 months and 6 months	3 199 023	3 984 860	1.1010	1.1405
Between 6 months and 9 months	-	3 984 860	-	1.1525
Buy RUB sell EUR				
Less than 3 months	2 090 898	16 503 696	67.0165	79.1222
Buy EUR sell USD				
Less than 3 months	2 415 179	885 689	1.0495	1.0938
Buy EUR sell RUB				
Less than 3 months	12 879	11 869 556	64.3926	79.0982
Buy GBP sell RUB				
Less than 3 months	-	5 940	-	108.0000
Buy JPY sell EUR				
Less than 3 months	12 762	-	123.3100	-

12 Available-for-sale securities

	31 December 2016 RUB'000	31 December 2015 RUB'000
<u>Held by the Group</u>		
Corporate bonds		
from BBB+ to BBB-	1 537 937	23 519 257
from BB+ to BB-	8 589 521	40 615 035
from B+ to B-	6 265 605	5 827 315
from CCC+ to CCC-	-	121 821
not rated	9 580 316	3 159 347
Promissory notes		
from BB+ to BB-	-	8 389 557
from B+ to B-	-	3 543 557
Equity investments	111 657	111 267
Total held by the Group	26 085 036	85 287 156
<u>Pledged under sale and repurchase agreements</u>		
Corporate bonds		
from BBB+ to BBB-	5 428 091	249 696
from BB+ to BB-	14 390 356	1 866 057
Total pledged under sale and repurchase agreements	19 818 447	2 115 753
Total available-for-sale securities	45 903 483	87 402 909

No available-for-sale securities are past due.

As at 31 December 2016, debt instruments in the amount of RUB 31 536 475 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2015: RUB 62 223 479 thousand).

13 Loans to customers

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to corporate clients	566 168 132	510 205 763
Impairment allowance	(32 698 086)	(27 782 541)
Loans to corporate clients, net	533 470 046	482 423 222
Loans to individuals		
Auto loans	1 182 717	3 307 156
Mortgage loans	23 861 366	21 559 432
Credit card loans	3 782 617	4 141 275
Other loans to individuals	71 743 616	90 725 254
Impairment allowance	(7 505 302)	(9 091 074)
Total loans to individuals, net	93 065 014	110 642 043
Gross loans to customers	666 738 448	629 938 880
Impairment allowance	(40 203 388)	(36 873 615)
Net loans to customers	626 535 060	593 065 265

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2016 and 31 December 2015:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to customers		
- Not past due	617 223 963	562 343 490
- Not past due but impaired	30 214 693	21 794 590
- Overdue less than 31 days	1 857 057	7 398 954
- Overdue 31-60 days	1 209 968	4 356 496
- Overdue 61-90 days	963 896	1 606 736
- Overdue 91-180 days	1 543 766	10 882 199
- Overdue 181-360 days	6 212 399	18 205 851
- Overdue more than 360 days	7 512 706	3 350 564
Total gross loans to customers	666 738 448	629 938 880
Impairment allowance	(40 203 388)	(36 873 615)
Total net loans to customers	626 535 060	593 065 265

As at 31 December 2016, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 19 299 792 thousand, which represents 2.9% of the gross loan portfolio (31 December 2015: RUB 45 800 800 thousand and 7.3% respectively).

Non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 15 268 871 thousand or 2.3% of the gross loan portfolio (31 December 2015: RUB 32 438 614 thousand and 5.1%, respectively).

As at 31 December 2016, the ratio of total impairment allowance to overdue loans equals 208.3%

and the ratio of total impairment allowance to NPLs equals 263.3% (31 December 2015: 80.5% and 113.7%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Balance at the beginning of the period	36 873 615	16 176 196
Net charge	29 783 276	26 035 950
Net write-offs	(26 453 503)	(5 338 531)
Balance at the end of the period	40 203 388	36 873 615

As at 31 December 2016, net interest accrued on overdue and impaired loans amounts to RUB 1 696 126 thousand (31 December 2015: RUB 803 123 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2016 and 31 December 2015:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to corporate clients		
- Not past due	527 212 151	456 119 669
- Not past due but impaired	30 214 693	21 794 590
- Overdue less than 31 days	533 897	5 906 042
- Overdue 31-60 days	162 579	3 180 256
- Overdue 61-90 days	97 557	213 323
- Overdue 91-180 days	212 118	7 965 233
- Overdue 181-360 days	2 946 619	14 148 922
- Overdue more than 360 days	4 788 518	877 728
Total gross loans to corporate clients	566 168 132	510 205 763
Impairment allowance	(32 698 086)	(27 782 541)
Total net loans to corporate clients	533 470 046	482 423 222

As at 31 December 2016, the Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus two percent, the impairment allowance as at 31 December 2016 would decrease/increase by RUB 10 669 401 thousand (31 December 2015: RUB 9 648 464 thousand).

The following table represents information about concentration of loans to corporate clients as at 31 December 2016 and 31 December 2015:

	31 December 2016		31 December 2015	
	RUB'000	% of total loan portfolio	RUB'000	% of total loan portfolio
Top 5 clients	102 463 360	15.4	89 083 321	14.1
Top 10 clients	184 056 827	27.6	164 471 465	26.1
Top 20 clients	290 311 054	43.5	258 572 251	41.0

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016 RUB 000	31 December 2015 RUB 000
Real estate and other property	90 255 992	82 071 384
Securities	78 106 343	83 371 235
Equipment and motor vehicles	33 036 109	14 548 057
Goods in turnover	16 379 552	28 178 103
Claims for contract receivables	9 826 576	3 105 425
Guaranteed deposits	4 992 194	4 992 040
Bank's own debt securities	1 116 314	8 471 000
Corporate guarantees and no collateral	299 756 966	257 685 978
	533 470 046	482 423 222

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 3 205 440 thousand higher without any collateral as at 31 December 2016 (31 December 2015: RUB 8 901 305 thousand).

Collateral obtained

During the year ended 31 December 2016, the Group obtained certain assets the carrying amount of which as at 31 December 2016 was RUB 114 522 thousand by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2015: RUB 238 415 thousand). The Group's policy is to sell these assets as soon as it is practicable

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Balance at the beginning of the period	27 782 541	8 366 428
Net charge	22 578 515	20 539 441
Net write-offs	(17 662 970)	(1 123 328)
Balance at the end of the period	32 698 086	27 782 541

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2016:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	1 093 644	21 602 763	3 511 455	63 803 950	90 011 812
- Overdue less than 31 days	15 566	182 279	-	1 125 315	1 323 160
- Overdue 31-60 days	8 169	44 246	24 563	970 411	1 047 389
- Overdue 61-90 days	8 885	54 128	20 460	782 866	866 339
- Overdue 91-180 days	9 361	175 771	54 052	1 092 464	1 331 648
- Overdue 181-360 days	32 615	414 973	100 834	2 717 358	3 265 780
- Overdue more than 360 days	14 477	1 387 206	71 253	1 251 252	2 724 188
Gross loans	1 182 717	23 861 366	3 782 617	71 743 616	100 570 316
Impairment allowance	(54 367)	(1 126 871)	(238 620)	(6 085 444)	(7 505 302)
Net loans	1 128 350	22 734 495	3 543 997	65 658 172	93 065 014

The following table provides information on the credit quality of loans to individuals as at 31 December 2015:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	3 138 330	18 746 326	3 439 798	80 899 367	106 223 821
- Overdue less than 31 days	23 724	221 695	98	1 247 395	1 492 912
- Overdue 31-60 days	9 525	78 073	39 944	1 048 698	1 176 240
- Overdue 61-90 days	9 985	125 636	33 930	1 223 862	1 393 413
- Overdue 91-180 days	33 199	1 085 725	122 832	1 675 210	2 916 966
- Overdue 181-360 days	57 814	461 521	331 872	3 205 722	4 056 929
- Overdue more than 360 days	34 579	840 456	172 801	1 425 000	2 472 836
Gross loans	3 307 156	21 559 432	4 141 275	90 725 254	119 733 117
Impairment allowance	(113 863)	(902 046)	(545 475)	(7 529 690)	(9 091 074)
Net loans	3 193 293	20 657 386	3 595 800	83 195 564	110 642 043

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months. The significant assumptions used by management in determining the impairment losses for loans to individuals is that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past twenty four months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance as at 31 December 2016 would increase/decrease by RUB 2 791 950 thousand (31 December 2015: RUB 3 319 261 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2016, impaired mortgage loans in the gross amount of RUB 2 258 603 thousand are secured by collateral with a fair value of RUB 1 830 426 thousand (31 December 2015: RUB 2 813 106 thousand and RUB 2 065 408 thousand, respectively).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2016 are as follows:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	113 863	902 046	545 475	7 529 690	9 091 074
Net charge	107	801 451	237 268	6 165 935	7 204 761
Net write-offs	(59 603)	(576 626)	(544 123)	(7 610 181)	(8 790 533)
Balance at the end of the period	54 367	1 126 871	238 620	6 085 444	7 505 302

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2015 are as follows:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	120 461	305 563	618 437	6 765 307	7 809 768
Net charge	155 504	596 483	217 876	4 526 646	5 496 509
Net write-offs	(162 102)	-	(290 838)	(3 762 263)	(4 215 203)
Balance at the end of the period	113 863	902 046	545 475	7 529 690	9 091 074

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Loans to individuals	100 570 316	119 733 117
Oil and industrial chemicals	101 344 835	95 427 482
Food and farm products	72 254 572	63 578 011
Property rental	62 505 024	30 297 150
Financial	59 202 852	46 866 680
Automotive, motorcycles and spare parts	49 693 338	42 089 711
Residential and commercial construction and development	45 748 805	38 573 473
Services	44 746 915	61 159 187
Metallurgical	39 913 698	39 150 165

	31 December 2016 RUB'000	31 December 2015 RUB'000
Industrial and infrastructure construction	21 245 623	24 808 966
Pharmaceutical and medical products	20 145 240	12 742 011
Industrial equipment and machinery	14 146 627	6 098 559
Construction and decorative materials, furniture	11 918 426	10 017 245
Clothing, shoes, textiles and sporting goods	8 598 660	10 503 336
Consumer electronics, appliances and computers	8 250 900	10 325 576
Paper, stationery and packaging products	2 628 336	2 916 325
Government and municipal bodies	1 422 229	-
Consumer chemicals, perfumes and hygiene products	917 134	2 689 256
Equipment leasing	318 247	32 812
Gardening and pet products	153 157	329 515
Products for home, gifts, jewelry and business accessories	67 099	184 218
Books, video, print and copy	37 502	323 184
Telecommunications	35 431	4 023 846
Electric utility	-	2 002 940
Other	873 482	6 066 115
	666 738 448	629 938 880
Impairment allowance	(40 203 388)	(36 873 615)
	626 535 060	593 065 265

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Gross investment in finance lease	9 124 047	9 316 528
Unearned interest income	(2 053 056)	(1 951 150)
Net investment in finance lease before allowance	7 070 991	7 365 378
Impairment allowance	(274 941)	(244 660)
Net investment in finance lease	6 796 050	7 120 718

The contractual maturity of the net investment in leases is as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Less than 1 year	3 207 905	3 204 365
Between 1 and 5 years	3 375 046	3 430 071
More than 5 years	21 325	5 682
Overdue	191 774	480 600
	6 796 050	7 120 718

Loan maturities

The maturity of the loan portfolio is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2016 is presented in the table below:

RUB'000	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2016	-	5 280 058	725 593	482 693	2 244 739	51 650	8 784 733
Additions	-	71 557	179 955	259 741	426 221	47 841	985 315
Disposals	-	(62 311)	(24 560)	(44 844)	(69 368)	-	(201 083)
Transfers	16 587 345	-	-	8 462	28 792	(37 254)	16 587 345
Revaluation	-	(166 431)	-	-	-	-	(166 431)
Impairment	-	-	(525)	-	(4 200)	-	(4 725)
Elimination of accumulated depreciation on revalued buildings	-	(116 455)	-	-	-	-	(116 455)
Currency exchange differences on translation	(1 608 955)	-	-	-	-	-	(1 608 955)
At 31 December 2016	14 978 390	5 006 418	880 463	706 052	2 626 184	62 237	24 259 744
Accumulated depreciation							
At 1 January 2016	-	-	339 826	237 672	1 202 817	-	1 780 315
Depreciation charge	749 357	116 455	165 995	112 555	336 983	-	1 481 345
Disposals	-	-	(20 837)	(44 772)	(56 073)	-	(121 682)
Elimination of accumulated depreciation on revalued buildings	-	(116 455)	-	-	-	-	(116 455)
Currency exchange differences on translation	(41 837)	-	-	-	-	-	(41 837)
At 31 December 2016	707 520	-	484 984	305 455	1 483 727	-	2 981 686
Carrying value							
At 31 December 2016	14 270 870	5 006 418	395 479	400 597	1 142 457	62 237	21 278 058

The movement in property and equipment for the year ended 31 December 2015 is presented in the table below:

RUB'000	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2015	6 191 074	487 116	329 088	1 928 814	70 338	9 006 430
Acquisition of a subsidiary company	85 699	216 658	10 364	110 352	-	423 073
Additions	3 934	37 410	173 564	224 720	40 883	480 511
Disposals	-	(15 591)	(30 323)	(78 718)	-	(124 632)
Transfers	-	-	-	59 571	(59 571)	-
Revaluation	(657 112)	-	-	-	-	(657 112)
Elimination of accumulated depreciation on revalued buildings	(343 537)	-	-	-	-	(343 537)
At 31 December 2015	5 280 058	725 593	482 693	2 244 739	51 650	8 784 733
Accumulated depreciation						
At 1 January 2015	212 393	244 178	193 266	957 253	-	1 607 090
Depreciation charge	131 144	108 509	74 621	304 021	-	618 295
Disposals	-	(12 861)	(30 215)	(58 457)	-	(101 533)
Elimination of accumulated depreciation on revalued buildings	(343 537)	-	-	-	-	(343 537)
At 31 December 2015	-	339 826	237 672	1 202 817	-	1 780 315
Carrying value						
At 31 December 2015	5 280 058	385 767	245 021	1 041 922	51 650	7 004 418

Revalued assets

The buildings were independently valued at 31 December 2016. The valuation was carried out by an independent firm of appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 10.0% to 12.3%;
- buildings maintenance and general administrative expenses are estimated in the range from 17.9% to 19.9% of effective gross rent income;
- capitalisation rate in the range from 10.0% to 12.1% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 12.0% to 13.8% implicit in advertized market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2016 would be RUB 500 642 thousand (31 December 2015: RUB 528 006 thousand) higher/lower.

The carrying value of buildings as of 31 December 2016, if the buildings would not have been revalued, would be RUB 4 040 171 thousand (31 December 2015: RUB 4 117 568 thousand).

15 Other assets

	31 December 2016 RUB'000	31 December 2015 RUB'000
Receivables and settlements with suppliers	951 577	896 189
Receivables for commissions	752 329	777 340
Receivables under cession agreements	579 234	900 282
Impairment allowance	(437 513)	(139 896)
Total other financial assets	1 845 627	2 433 915
Real estate held for sale	2 586 107	3 804 815
Investment property	739 000	-
Intangible assets	313 610	354 719
Deferred expenses	137 845	114 479
Property held for further leasing	-	18 002 027
Current tax assets	101 168	1 759 906
Other	587 549	895 887
Impairment allowance	(60 992)	(21 267)
Total other non-financial assets	4 404 287	24 910 566
Total other assets	6 249 914	27 344 481

To avoid losses on the documentary instruments the Bank entered into ownership of aircraft. As at 31 December 2015 these aircraft were included in property held for further leasing. During 2016 these aircraft were transferred to property and equipment and used for operating leasing.

Included in real estate held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Balance at the beginning of the period	161 163	189 549
Net charge (recovery)	507 127	(889)
Write-offs	(169 785)	(27 497)
Balance at the end of the period	498 505	161 163

16 Deposits by the Central Bank of the Russian Federation

	31 December 2016 RUB'000	31 December 2015 RUB'000
Payables under repurchase agreements or collateralized loans	247 169 523	4 044 647
Total deposits by the Central Bank of the Russian Federation	247 169 523	4 044 647

As at 31 December 2016, the fair value of securities that serve as collateral under sale and

repurchase agreements is RUB 285 678 116 thousand.

Information about the currency and maturity and effective interest rates on deposits by the Central Bank of the Russian Federation is presented in note 29.

17 Deposits by credit and other financial institutions

	31 December 2016 RUB'000	31 December 2015 RUB'000
Payables under repurchase agreements or collateralized loans	247 011 266	22 602 592
Term deposits	129 999 488	52 523 973
Current accounts	3 991 134	8 043 136
Subordinated debt	622 577	1 490 212
Total deposits by credit and other financial institutions	381 624 465	84 659 913

Subordinated debt represents loans denominated in USD with an effective interest rate of 7.7% (31 December 2015: 7.0%) and maturity in 2017 (31 December 2015: in 2017).

As at 31 December 2016, the Group has two counterparties (31 December 2015: four counterparties) whose deposits balances exceed 10% of deposits by credit and other financial institutions. The gross value of these balances as at 31 December 2016 is RUB 329 968 267 thousand (31 December 2015: RUB 60 599 915 thousand).

As at 31 December 2016, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 284 634 909 thousand.

Information about the currency and maturity and effective interest rates on deposits by credit and other financial institutions is presented in note 29.

18 Deposits by customers

	31 December 2016 RUB'000	31 December 2015 RUB'000
Corporate customers		
Term and demand deposits	379 563 209	645 758 476
Current accounts	41 300 435	25 832 712
Subordinated debt	18 272 593	21 885 357
Term notes	1 705 925	4 286 679
Total corporate customers	440 842 162	697 763 224
Individuals		
Term and demand deposits	235 353 371	189 047 958
Current accounts	13 300 187	11 881 049
Total individuals	248 653 558	200 929 007
Total deposits by customers	689 495 720	898 692 231

As at 31 December 2016, the Group has one counterparty (31 December 2015: two counterparties), whose demand and term deposits exceed 10% of total customer accounts. The gross value of these balances as at 31 December 2016 is RUB 243 279 657 thousand (31 December 2015: RUB 493 626 596 thousand).

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 29.

19 Debt securities issued

	31 December 2016 RUB'000	31 December 2015 RUB'000
Promissory notes issued	1 145 644	1 044 559
Total promissory notes issued	1 145 644	1 044 559
Bonds	95 251 836	73 901 654
Subordinated bonds	40 805 936	46 208 552
Total bonds issued	136 057 772	120 110 206
Total debt securities issued	137 203 416	121 154 765

The table below provides a summary of bonds issued as at 31 December 2016 and 31 December 2015:

	Nominal amount of the initial issue RUB'000/ USD'000	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate	
		31 December 2016 RUB'000	31 December 2015 RUB'000				
USD denominated Eurobonds issue	500 000	31 278 323	37 565 990	01.02.2013	01.02.2018	7.70%	*
USD denominated subordinated Eurobonds issue	500 000	30 639 306	36 049 080	13.05.2013	13.11.2018	8.70%	*
USD denominated Eurobonds issue	500 000	30 477 791	-	07.11.2016	07.11.2021	5.88%	*
RUB denominated bonds issue BO-11	12 465 515	13 033 492	15 038 290	10.07.2014	10.07.2019	12.00%	
RUB denominated bonds issue BO-06	4 999 993	5 109 561	3 722 125	24.10.2013	24.10.2018	12.25%	
RUB denominated subordinated Eurobonds issue	5 000 000	5 056 228	5 053 367	26.11.2014	26.05.2025	16.50%	*
RUB denominated bonds issue BO-10	3 912 626	4 113 360	5 263 722	10.07.2014	10.07.2019	11.00%	
Mortgage-backed bonds	3 328 384	3 355 211	-	02.12.2016	07.12.2043	10.15%	*
RUB denominated subordinated bonds issue 11	3 000 000	3 023 822	3 020 864	11.12.2012	05.06.2018	12.25%	*
RUB denominated bonds issue BO-07	2 236 843	2 177 866	6 939 068	30.10.2013	30.10.2018	10.30%	
RUB denominated bonds issue BO-09	2 117 831	2 174 692	3 100 049	25.03.2015	25.03.2020	11.55%	
RUB denominated subordinated bonds issue 12	2 000 000	2 086 580	2 085 240	27.02.2013	22.08.2018	12.25%	*
RUB denominated bonds issue 01	3 000 000	2 044 021	-	27.10.2016	21.10.2021	12.50%	
Mortgage-backed bonds	3 702 139	1 487 519	2 272 411	16.06.2014	07.06.2039	10.65%	*
		136 057 772	120 110 206				

* Fixed coupon rate

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to

change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 cember 2016	31 December 2015
	RUB'000	RUB'000
Derivative financial instruments	1 081 474	782 834
Payables to suppliers and other creditors	856 793	510 907
Cash collection payables	376 822	182 234
Other liabilities	651 259	218 179
Total other financial liabilities	2 966 348	1 694 154
Deferred income	2 980 852	871 772
Allowance for credit related commitments	1 654 096	1 397 344
Taxes payable	389 077	228 063
Payable to employees	377 011	360 966
Payables to Deposit Insurance Agency	258 864	189 554
Current tax liabilities	22 910	-
Other liabilities	235 905	188 205
Total other non-financial liabilities	5 918 715	3 235 904
Total other liabilities	8 885 063	4 930 058

21 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 31 December 2016 comprises 23 879 709 866 shares (31 December 2015: 23 879 709 866 shares) with par value of 1 RUB per share. In addition, at 31 December 2016 the Bank has 12 396 448 142 authorized but unissued ordinary shares with an aggregate nominal value of RUB 12 396 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 861 930 thousand.

In 2015 the Bank issued 8 139 683 500 additional ordinary shares with a par value of 1 RUB per share under initial and secondary public offerings. The Bank raised RUB 29 690 654 thousand during these offerings.

22 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2016 RUB'000	31 December 2015 RUB'000
Guarantees and letters of credit	101 611 603	65 895 955
Undrawn loan commitments	26 676 975	6 449 869
Other contingent liabilities	322 368	137 258
	128 610 946	72 483 082

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Less than 1 year	821 483	887 475
Between 1 and 5 years	1 432 635	1 000 944
More than 5 years	48 654	32 120
	2 302 772	1 920 539

During the year ended 31 December 2016 RUB 1 120 972 thousand was recognised as an expense in profit or loss in respect of operating leases (31 December 2015: RUB 816 209 thousand).

Leases as lessor

Assets leased out under operating leases are represented by aircraft.

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Less than 1 year	1 615 900	-
Between 1 and 5 years	6 463 599	-
More than 5 years	2 144 229	-
	10 223 728	-

The present value of minimum lease payments under these arrangements as at 31 December 2016 is RUB 8 653 691 thousand.

As at 31 December 2016, there was only one lessee under operating lease agreements.

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or

related to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities **during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period.** Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognized in the consolidated statement of financial position.

26 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Amount RUB'000	Average effective interest rate	Amount RUB'000	Average effective interest rate
Loans to customers				
Under control of principal beneficiary	18 318 205	14.2%	991 190	17.4%
Management	70 248	16.4%	114 800	16.4%
Total loans to customers	18 388 453		1 105 990	
Deposits by customers				
Term deposits by customers				
Parent company	977 270	10.1%	14 207	10.0%
Principal beneficiary	827 366	9.9%	282 176	13.2%
Under control of principal beneficiary	240 795	10.0%	266 381	10.8%
Management	145 264	5.0%	191 100	7.8%
Total term deposits by customers	2 190 695		753 864	
Current accounts by customers				
Under control of principal beneficiary	68 063		210 502	
Management	64 115		8 485	
Principal beneficiary	3 139		355	
Parent company	477		41 817	
Total current accounts by customers	135 794		261 159	
Total deposits by customers	2 326 489		1 015 023	
Guarantees issued				
Under control of principal beneficiary	342 633		4 287 052	
Total guarantees	342 633		4 287 052	

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2016 and 2015 in relation to transactions with related parties are as follows:

	2016 RUB'000	2015 RUB'000
Interest income on loans to customers		
Under control of principal beneficiary	778 416	118 208
Parent company	20 309	-
Management	9 415	9 355
Principal beneficiary	-	193 411
Total interest income	808 140	320 974
Interest expense on deposits by customers		
Under control of principal beneficiary	250 732	23 053
Parent company	67 411	76 808
Principal beneficiary	20 270	24 998
Management	12 837	15 069
Total interest expense	351 250	139 928

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2016 and 31 December 2015 (refer to note 6) is as follows:

	2016 RUB'000	2015 RUB'000
Members of the Management Board	101 785	86 631
Members of the Supervisory Board	77 721	74 995
	179 506	161 626

27 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Till 31 December 2015 the Group calculated amount of capital in accordance with Direction of the CBR dated 25 October 2013 No. 3090-U *On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups* and since 1 January 2016 – in accordance with Provision of the CBR dated 3 December 2015 No. 509-P *On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups*. As at 31 December 2016, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4.5%, 6.0% and 8.0%, accordingly. As at 31 December 2015, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 5.0%, 6.0% and 10.0%, accordingly.

Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR offices that supervise the Bank with information on mandatory ratios in accordance with regulatory requirements. The accounting department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBR and the Group's internal policy this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2016 and 31 December 2015.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS consolidated financial statements as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	59 789 103	59 789 103
Retained earnings	42 433 730	31 560 113
Intangible assets	(313 610)	(354 719)
Core tier 1	101 909 223	90 994 497
Additional capital	-	-
Total tier 1 capital	101 909 223	90 994 497

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	31 December 2016	31 December 2015
	RUB'000	RUB'000
Tier 2 capital		
Revaluation surplus for buildings	687 505	769 176
Revaluation reserve for securities available-for-sale	450 796	220 070
Subordinated loans		
Subordinated loans	38 464 464	42 291 275
Subordinated bonds	18 294 420	28 277 204
Total tier 2 capital	57 897 185	71 557 725
Total capital	159 806 408	162 552 222
Risk-weighted assets		
Banking book	869 091 849	749 365 459
Trading book	138 702 951	179 465 196
Operational risk	77 593 072	57 449 960
Total risk weighted assets	1 085 387 872	986 280 615
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	14.7	16.5
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)	9.4	9.2
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	9.4	9.2

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 13 274 586 thousand (31 December 2015: RUB 23 398 755 thousand) which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Other subordinated loans are subject to accelerated amortization, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before March 2013.

In June 2015 the State Corporation “Deposit Insurance Agency” provided a subordinated loan of RUB 20 231 000 thousand to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction. The Group does not recognize securities received and a subordinated obligation to return them to the lender in the consolidated interim condensed statement of financial position of the Group. The obligation to return securities received to the State Corporation “Deposit Insurance Agency” is subordinated to other ordinary obligations of the Group, and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its Tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

28 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit taking, settlements and money transfers, currency conversion
- Retail banking comprises retail demand and term deposit services; retail lending, including other loans to individuals, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers, currency conversion for individuals
- Treasury comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	31 December 2016 RUB'000	31 December 2015 RUB'000
ASSETS		
Corporate business	552 399 939	487 032 141
Retail banking	95 692 900	111 969 235
Treasury	887 855 792	557 505 468
Cash operations	18 762 889	17 344 885
Unallocated assets	13 257 102	34 348 899
Total assets	1 567 968 622	1 208 200 628
LIABILITIES		
Corporate business	440 842 162	697 763 224
Retail banking	248 653 558	200 929 007
Treasury	765 997 404	209 859 325
Unallocated liabilities	9 074 923	7 310 610
Total liabilities	1 464 568 047	1 115 862 166

Segment information for the main reportable segments for the year ended 31 December 2016 is set below:

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RUB'000	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	63 181 865	18 636 599	31 579 979	-	-	113 398 443
Fee and commission income	3 729 114	5 202 643	218 358	4 243 631	-	13 393 746
Net gain on securities	-	-	1 442 541	-	-	1 442 541
Net foreign exchange gains	997 324	118 908	4 933 987	14 932	-	6 065 151
Other operating income, net	1 097 253	(88 079)	(255 734)	(50 137)	-	703 303
Revenue (expenses) from other segments	5 118 183	9 275 416	(14 711 429)	317 830	-	-
Revenue	74 123 739	33 145 487	23 207 702	4 526 256	-	135 003 184
Impairment losses on loans	(22 578 515)	(7 204 761)	-	-	-	(29 783 276)
Interest expense	(35 856 001)	(18 072 108)	(19 171 009)	-	-	(73 099 118)
Fee and commission expense	(1 926 978)	(167 491)	(120 665)	(31 601)	-	(2 246 735)
General administrative and other expenses	(4 975 280)	(4 812 601)	(421 219)	(1 888 893)	(4 041 526)	(16 139 519)
Expense	(65 336 774)	(30 256 961)	(19 712 893)	(1 920 494)	(4 041 526)	(121 268 648)
Segment result	8 786 965	2 888 526	3 494 809	2 605 762	(4 041 526)	13 734 536

Segment information for the main reportable segments for the year ended 31 December 2015 is set below:

RUB'000	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	48 791 721	21 501 052	18 917 737	-	-	89 210 510
Fee and commission income	2 447 074	4 274 211	178 092	2 469 733	-	9 369 110
Net gain on securities	-	-	800 663	-	-	800 663
Net foreign exchange gain	1 889 144	192 235	661 399	-	-	2 742 778
Revenue (expenses) from other segments	1 826 444	(976 371)	(933 718)	83 645	-	-
Revenue	54 954 383	24 991 127	19 624 173	2 553 378	-	102 123 061
Impairment losses on loans	(20 539 441)	(5 496 509)	-	-	-	(26 035 950)
Interest expense	(24 116 299)	(20 078 998)	(15 726 739)	-	-	(59 922 036)
Fee and commission expense	(1 437 475)	(183 726)	(96 567)	-	-	(1 717 768)
Other operating loss, net	(779 015)	115 762	113 892	-	-	(549 361)
General administrative and other expenses	(3 226 947)	(4 232 072)	(203 869)	(498 112)	(3 792 402)	(11 953 402)
Expense	(50 099 177)	(29 875 543)	(15 913 283)	(498 112)	(3 792 402)	(100 178 517)
Segment result	4 855 206	(4 884 416)	3 710 890	2 055 266	(3 792 402)	1 944 544

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations. The majority of non-current assets are located in the Russian Federation.

Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an public joint-stock company in accordance with Russian law. The

supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2016, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Roman I. Avdeev
- Andrew S. Gazitua
- Thomas G. Grasse
- Vladimir A. Chubar
- Mikhail E. Kuznetsov
- Marina M. Nastashkina
- Genadi Lewinski
- Andreas Klingen
- Ilkka S. Salonen.

During the year ended 31 December 2016 the following changes occurred in the composition of the Supervisory Board:

- Nicholas D. Haag – resigned
- Bernard D. Sucher – resigned
- Alexey A. Stepanenko – resigned
- Andrey A. Kryukov – resigned
- Marina M. Nastashkina – new member
- Genadi Lewinski – new member
- Andreas Klingen – new member
- Ilkka S. Salonen – new member.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2016, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Dmitry A. Eremin – First Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Daria A. Galkina – Deputy Chairman of the Management Board
- Alexey A. Stepanenko – Deputy Chairman of the Management Board
- Andrey A. Kryukov – Deputy Chairman of the Management Board
- Yury A. Ubeev – Senior Vice President
- Svetlana V. Sass – Chief Accountant, Member of the Management Board
- Elena V. Shved – Director of the Finance Department, Member of the Management Board
- Anton O. Viritchev – Head of the Risk Management, Member of the Management Board.

During the year ended 31 December 2016 the following changes occurred in the composition of the Management Board:

- Alexey A. Stepanenko – new member
- Andrey A. Kryukov – new member
- Elena V. Shved – new member
- Anton O. Viritchev – new member.

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documenting of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulation of the Central Bank of Russian Federation dated 16 December 2003 No. 242-P *On the Organisation of Internal Control in Credit Organisations and Banking Groups* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the Internal Audit Service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the Bank's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the internal control service and the risk management service.

The Internal Control Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Function is independent from management and reports directly to the Supervisory Board. The results service of the Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity*, Direction of the CBR dated 1 April 2014 No. 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation*, establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of the Internal Audit Service, Internal Control Service and Risk Management Service and other key management personnel. All members of the Bank's Risks Division meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit and Control function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognized and unrecognized exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk in relation to assets recognized at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
	RUB'000	RUB'000
ASSETS		
Cash and cash equivalents excluding cash on hand	354 563 626	120 669 701
Obligatory reserves with the Central Bank of the Russian Federation	7 286 909	5 936 111
Deposits in credit and other financial institutions	403 480 148	277 295 869

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	31 December 2016	31 December 2015
	RUB'000	RUB'000
Financial instruments at fair value through profit or loss	83 907 588	72 136 989
Available-for-sale securities	45 791 826	87 291 642
Loans to customers	626 535 060	593 065 265
Other financial assets	1 845 627	2 433 915
Total maximum exposure to credit risk on statement of financial position	1 523 410 784	1 158 829 492

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2016 and 31 December 2015, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2016 and 31 December 2015.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of Direction of the CBR dated 25 October 2013 No. 3090-U *Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2016 and 31 December 2015.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

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Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities RUB'000	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase	626 206 727	-	626 206 727	626 206 727	-	-
Total financial assets	626 206 727	-	626 206 727	626 206 727	-	-
Sale and repurchase	494 180 789	-	494 180 789	494 180 789	-	-
Total financial liabilities	494 180 789	-	494 180 789	494 180 789	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities RUB'000	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase	289 550 623	-	289 550 623	289 550 623	-	-
Total financial assets	289 550 623	-	289 550 623	289 550 623	-	-
Sale and repurchase	26 647 239	-	26 647 239	26 647 239	-	-
Total financial liabilities	26 647 239	-	26 647 239	26 647 239	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortized cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2016.

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Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial assets/liabilities not in the scope of offsetting disclosure RUB'000	Note
Reverse sale and repurchase agreements	228 615 945	Cash and cash equivalents	373 326 515	144 710 570	9
	397 590 782	Deposits in credit and other financial institutions	403 480 148	5 889 366	10
Sale and repurchase agreements	247 169 523	Deposits by the Central Bank of the Russian Federation	247 169 523	-	16
	247 011 266	Deposits by credit and other financial institutions	381 624 465	134 613 199	17

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2015.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial assets/liabilities not in the scope of offsetting disclosure RUB'000	Note
Reverse sale and repurchase agreements	50 735 211	Cash and cash equivalents	138 014 586	87 279 375	9
	238 815 412	Deposits in credit and other financial institutions	277 295 869	38 480 457	10
Sale and repurchase agreements	4 044 647	Deposits by the Central Bank of the Russian Federation	4 044 647	-	16
	22 602 592	Deposits by credit and other financial institutions	84 659 913	62 057 321	17

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorized transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognized principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of the Internal Control Division on important developments and

issues. The Head of the Internal Control Division reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are:

- i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Group was in compliance with these ratios as at 31 December 2016 and 31 December 2015.

The following tables as at 31 December 2016 and 31 December 2015 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Bonds issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2016 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by the CBR	247 639 435	-	-	-	247 639 435	247 169 523
Deposits by credit and other financial institutions	184 375 220	189 551 713	4 383 728	7 967 251	386 277 912	381 624 465
Deposits by customers	253 434 260	190 485 582	206 625 434	67 406 065	717 951 341	689 495 720
Debt securities issued	-	10 904 588	18 039 079	142 493 923	171 437 590	137 203 416
Other financial liabilities	588 700	1 713 311	660 980	3 357	2 966 348	2 966 348
Total contractual future payments for financial obligations	686 037 615	392 655 194	229 709 221	217 870 596	1 526 272 626	1 458 459 472
Guarantees and letters of credit	101 611 603	-	-	-	101 611 603	
Credit related commitments	26 676 975	-	-	-	26 676 975	

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31 December 2015 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by the CBR	-	4 061 566	-	-	4 061 566	4 044 647
Deposits by credit and other financial institutions	29 969 117	44 331 293	3 931 759	8 159 293	86 391 462	84 659 913
Deposits by customers	139 780 249	322 114 330	385 766 303	86 563 741	934 224 623	898 692 231
Debt securities issued	6 647 413	8 613 235	17 139 405	118 065 559	150 465 612	121 154 765
Other financial liabilities	1 329 314	264 641	91 277	8 922	1 694 154	1 694 154
Total contractual future payments for financial obligations	177 726 093	379 385 065	406 928 744	212 797 515	1 176 837 417	1 110 245 710
Guarantees and letters of credit	65 895 955	-	-	-	65 895 955	
Credit related commitments	6 449 869	-	-	-	6 449 869	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2016 RUB'000	31 December 2015 RUB'000
Demand and less than 1 month	24 513 148	26 596 672
From 1 to 6 months	123 260 928	107 909 005
From 6 to 12 months	73 020 538	37 204 483
More than 1 year	14 558 757	17 337 798
	235 353 371	189 047 958

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2016 and 31 December 2015 is shown in the tables below:

31 December 2016 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Bonds issued	-	7 284 253	13 033 492	73 319 257	37 578 039	4 842 731	136 057 772

31 December 2015 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Bonds issued	15 038 290	3 100 049	12 202 791	82 443 298	5 053 367	2 272 411	120 110 206

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation are shown in the category "Less than 1 month" as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

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As at 31 December 2016 and 2015 the contractual maturities of all instruments included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

2016 RUB'000	Less than month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Financial instruments at fair value through profit or loss	17 449 476	20 534 690	6 958 668	20 721 228	13 514 324	4 729 202	947	83 908 535
Available-for-sale securities	1 478 297	6 587 856	9 656 684	19 275 196	6 426 009	2 367 784	111 657	45 903 483
2015 RUB'000	Less than month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Financial instruments at fair value through profit or loss	2 757 203	30 519 203	19 300 715	17 093 588	1 295 746	1 170 534	-	72 136 989
Available-for-sale securities	66 538	9 308 366	17 016 804	54 241 816	3 817 855	2 840 263	111 267	87 402 909

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31 December 2016 RUB'000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	373 326 515	-	-	-	-	-	-	-	-	-	-	373 326 515
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	7 286 909	-	7 286 909
Deposits in credit and other financial institutions	-	275 109 628	162 306	40 773 459	87 434 755	-	-	-	-	-	-	403 480 148
Financial instruments at fair value through profit or loss	82 110 854	1 662 674	135 007	-	-	-	-	-	-	-	-	83 908 535
Available-for-sale securities	32 801 287	119 763	80 441	-	-	7 397 601	1 441 113	1 825 707	2 125 914	111 657	-	45 903 483
Loans to customers	85 362 187	42 819 338	86 460 956	42 923 816	39 302 383	63 243 617	72 275 005	118 675 605	69 160 590	-	6 311 563	626 535 060
Property and equipment	-	-	-	-	-	-	-	-	-	21 278 058	-	21 278 058
Other assets	459 032	455 145	598 055	342 755	236 402	48 836	-	297 916	-	3 811 773	-	6 249 914
	574 059 875	320 166 548	87 436 765	84 040 030	126 973 540	70 690 054	73 716 118	120 799 228	71 286 504	32 488 397	6 311 563	1 567 968 622
LIABILITIES												
Deposits by the CBR	247 169 523	-	-	-	-	-	-	-	-	-	-	247 169 523
Deposits by credit and other financial institutions	183 914 725	186 529 354	254 512	2 329 459	1 944 137	4 296 754	24 197	1 273 098	1 058 229	-	-	381 624 465
Deposits by customers	252 942 466	110 591 381	75 603 443	42 654 571	155 775 034	17 236 635	12 184 812	347 973	22 159 405	-	-	689 495 720
Debt securities issued	-	1 145 644	-	-	-	74 315 458	17 146 853	34 696 503	9 898 958	-	-	137 203 416
Deferred tax liability	-	-	-	-	-	-	-	-	-	189 860	-	189 860
Other liabilities	965 017	2 422 519	1 066 442	812 351	812 351	253 567	250 209	250 347	-	2 052 260	-	8 885 063
	684 991 731	300 688 898	76 924 397	45 796 381	158 531 522	96 102 414	29 606 071	36 567 921	33 116 592	2 242 120	-	1 464 568 047
Net position	(110 931 856)	19 477 650	10 512 368	38 243 649	(31 557 982)	(25 412 360)	44 110 047	84 231 307	38 169 912	30 246 277	6 311 563	103 400 575
Cumulative position	(110 931 856)	(91 454 206)	(80 941 838)	(42 698 189)	(74 256 171)	(99 668 531)	(55 558 484)	28 672 823	66 842 735	97 089 012	103 400 575	

Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions. After the reporting date the majority of deposits by customers with maturity less than 1 month as at 31 December 2016 were prolonged and the Group attracted new funding from corporate clients, which resulted in positive cumulative liquidity position in the categories from less than 1 month to 6 to 9 months.

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31 December 2015 RUB'000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	138 014 586	-	-	-	-	-	-	-	-	-	-	138 014 586
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	5 936 111	-	5 936 111
Deposits in credit and other financial institutions	-	70 956 455	101 342 473	5 272 120	1 416 268	98 308 553	-	-	-	-	-	277 295 869
Financial instruments at fair value through profit or loss	61 997 153	2 864 799	3 876 735	184 555	1 196 705	528 642	1 488 400	-	-	-	-	72 136 989
Available-for-sale securities	60 107 726	2 115 753	5 066 642	7 061 565	7 670 898	258 658	4 847 710	36 453	126 237	111 267	-	87 402 909
Loans to customers	71 062 052	89 688 271	63 333 598	48 036 367	37 625 142	38 711 193	57 222 511	77 652 412	84 070 793	-	25 662 926	593 065 265
Property and equipment	-	-	-	-	-	-	-	-	-	7 004 418	-	7 004 418
Other assets	716 103	590 784	1 082 870	642 105	236 377	131 052	65 526	-	-	23 879 664	-	27 344 481
	331 897 620	166 216 062	174 702 318	61 196 712	48 145 390	137 938 098	63 624 147	77 688 865	84 197 030	36 931 460	25 662 926	1 208 200 628
LIABILITIES												
Deposits by the CBR	-	4 044 647	-	-	-	-	-	-	-	-	-	4 044 647
Deposits by credit and other financial institutions	29 889 828	2 000 736	42 042 747	3 266 642	595 522	3 542 951	723 814	1 146 699	1 450 974	-	-	84 659 913
Deposits by customers	139 132 835	203 651 279	111 245 333	252 569 174	122 668 329	31 874 538	11 145 095	468 449	25 937 199	-	-	898 692 231
Debt securities issued	-	1 044 559	-	-	-	-	89 382 368	23 402 061	7 325 777	-	-	121 154 765
Deferred tax liability	-	-	-	-	-	-	-	-	-	2 380 552	-	2 380 552
Other liabilities	1 671 314	641 734	242 944	202 876	195 829	41 258	56 993	64 848	53 951	1 758 311	-	4 930 058
	170 693 977	211 382 955	153 531 024	256 038 692	123 459 680	35 458 747	101 308 270	25 082 057	34 767 901	4 138 863	-	1 115 862 166
Net position	161 203 643	(45 166 893)	21 171 294	194 841 980	(75 314 290)	102 479 351	(37 684 123)	52 606 808	49 429 129	32 792 597	25 662 926	92 338 462
Cumulative position	161 203 643	116 036 750	137 208 044	(57 633 936)	(132 948 226)	(30 468 875)	(68 152 998)	(15 546 190)	33 882 939	66 675 536	92 338 462	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarizes the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2016						
Interest-bearing assets	355 557 122	431 674 774	227 049 765	397 675 469	6 311 563	1 418 268 693
Interest-bearing liabilities	625 434 958	381 408 587	215 736 693	174 321 130	-	1 396 901 368
Net interest sensitivity gap as at 31 December 2016	(269 877 836)	50 266 187	11 313 072	223 354 339	6 311 563	21 367 325
31 December 2015						
Interest-bearing assets	147 306 327	365 148 366	128 667 417	442 361 375	25 662 926	1 109 146 411
Interest-bearing liabilities	138 270 323	367 129 350	391 302 458	166 058 795	-	1 062 760 926
Net interest sensitivity gap as at 31 December 2015	9 036 004	(1 980 984)	(262 635 041)	276 302 580	25 662 926	46 385 485

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 31 December 2015 is as follows:

	2016		2015	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
200 bp parallel rise	(1 462 229)	(1 462 229)	951 996	951 996
200 bp parallel fall	1 462 229	1 462 229	(951 996)	(951 996)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2016 and 31 December 2015 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2016		2015	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
200 bp parallel rise	(2 086 654)	(3 299 933)	(860 099)	(3 027 271)
200 bp parallel fall	2 086 654	3 299 933	860 099	3 027 271

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2016 and 31 December 2015 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2016		2015	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
20% appreciation of USD against RUB	(430 919)	(430 919)	(2 275 867)	(2 275 867)
20% depreciation of USD against RUB	430 919	430 919	2 275 867	2 275 867

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2016			2015		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	3.3%	11.8%	2.3%	3.3%	12.7%	6.5%
Deposits in credit and other financial institutions	3.7%	11.1%	4.7%	3.5%	12.9%	2.2%

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	2016			2015		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Financial instruments at fair value through profit or loss						
– government and municipal bonds	4.4%	9.8%	-	-	11.7%	-
– corporate bonds	4.0%	9.5%	3.1%	3.9%	12.1%	-
Available-for-sale securities						
– corporate bonds	3.1%	10.3%	-	6.1%	10.2%	-
– promissory notes	-	-	-	4.7%	-	-
Loans to customers	6.3%	15.0%	6.5%	6.8%	16.6%	8.5%
Interest bearing liabilities						
Deposits by the CBR	3.1%	11.0%	-	1.7%	-	-
Deposits by credit and other financial institutions						
– term deposits	2.1%	10.4%	0.8%	4.1%	10.2%	1.5%
– subordinated debt	7.7%	-	-	7.0%	-	-
Term deposits by customers						
– term deposits	2.1%	9.7%	1.7%	2.4%	11.4%	4.1%
– subordinated debt	4.9%	-	-	4.9%	-	-
Debt securities issued	7.4%	12.2%	1.1%	8.2%	11.9%	-

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

31 December 2016 RUB'000	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	261 477 897	102 868 573	8 980 045	373 326 515
Obligatory reserves with the CBR	-	7 286 909	-	7 286 909
Deposits in credit and other financial institutions	267 558 605	132 133 498	3 788 045	403 480 148
Financial instruments at fair value through profit or loss	42 132 431	41 513 132	262 972	83 908 535
Available-for-sale securities	25 208 321	20 695 162	-	45 903 483
Loans to customers	146 122 665	468 413 222	11 999 173	626 535 060
Property and equipment	14 270 870	7 007 188	-	21 278 058
Other assets	271 294	5 927 841	50 779	6 249 914
	757 042 083	785 845 525	25 081 014	1 567 968 622

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31 December 2016 RUB'000	USD	RUB	Other currencies	Total
LIABILITIES				
Deposits by the CBR	184 150 090	63 019 433	-	247 169 523
Deposits by credit and other financial institutions	90 319 051	283 679 947	7 625 467	381 624 465
Deposits by customers	251 021 126	425 730 655	12 743 939	689 495 720
Debt securities issued	92 395 419	43 662 353	1 145 644	137 203 416
Deferred tax liability	-	189 860	-	189 860
Other liabilities	1 627 872	7 204 409	52 782	8 885 063
	619 513 558	823 486 657	21 567 832	1 464 568 047
Net position before hedging	137 528 525	(37 641 132)	3 513 182	103 400 575
Derivative financial instruments	(140 221 771)	145 636 078	(5 414 307)	-
Net position	(2 693 246)	107 994 946	(1 901 125)	103 400 575
31 December 2015 RUB'000				
	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	59 727 312	72 654 368	5 632 906	138 014 586
Obligatory reserves with the CBR	-	5 936 111	-	5 936 111
Deposits in credit and other financial institutions	209 513 317	14 053 586	53 728 966	277 295 869
Financial instruments at fair value through profit or loss	2 711 998	69 335 105	89 886	72 136 989
Available-for-sale securities	79 312 931	8 089 978	-	87 402 909
Loans to customers	182 817 944	394 026 650	16 220 671	593 065 265
Property and equipment	-	7 004 418	-	7 004 418
Other assets	18 144 937	9 186 146	13 398	27 344 481
	552 228 439	580 286 362	75 685 827	1 208 200 628
LIABILITIES				
Deposits by the CBR	4 044 647	-	-	4 044 647
Deposits by credit and other financial institutions	12 210 910	29 503 369	42 945 634	84 659 913
Deposits by customers	461 502 072	419 521 369	17 668 790	898 692 231
Debt securities issued	73 615 070	47 539 695	-	121 154 765
Deferred tax liability	-	2 380 552	-	2 380 552
Other liabilities	803 913	3 937 483	188 662	4 930 058
	552 176 612	502 882 468	60 803 086	1 115 862 166
Net position before hedging	51 827	77 403 894	14 882 741	92 338 462
Derivative financial instruments	(14 275 993)	29 973 084	(15 697 091)	-
Net position	(14 224 166)	107 376 978	(814 350)	92 338 462

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2016 and 31 December 2015 is disclosed in the table below:

31 December 2016 RUB'000	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	357 176 263	7 407 276	8 742 976	373 326 515
Obligatory reserves with the CBR	7 286 909	-	-	7 286 909
Deposits in credit and other financial institutions	397 310 009	1 919 385	4 250 754	403 480 148
Financial instruments at fair value through profit or loss	64 213 599	17 966 599	1 728 337	83 908 535
Available-for-sale securities	18 968 069	26 935 414	-	45 903 483
Loans to customers	505 265 634	50 452 327	70 817 099	626 535 060
	1 350 220 483	104 681 001	85 539 166	1 540 440 650
LIABILITIES				
Deposits by the CBR	247 169 523	-	-	247 169 523
Deposits by credit and other financial institutions	360 063 888	10 611 622	10 948 955	381 624 465
Deposits by customers	680 153 703	7 257 944	2 084 073	689 495 720
Debt securities issued	39 751 769	97 451 647	-	137 203 416
	1 327 138 883	115 321 213	13 033 028	1 455 493 124
Net position	23 081 600	(10 640 212)	72 506 138	84 947 526
31 December 2015 RUB'000	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	85 762 363	30 269 539	21 982 684	138 014 586
Obligatory reserves with the CBR	5 936 111	-	-	5 936 111
Deposits in credit and other financial institutions	258 580 188	-	18 715 681	277 295 869
Financial instruments at fair value through profit or loss	68 839 281	567 534	2 730 174	72 136 989
Available-for-sale securities	15 898 183	70 484 368	1 020 358	87 402 909
Loans to customers	489 337 845	33 306 856	70 420 564	593 065 265
	924 353 971	134 628 297	114 869 461	1 173 851 729
LIABILITIES				
Deposits by the CBR	4 044 647	-	-	4 044 647
Deposits by credit and other financial institutions	73 444 089	11 153 444	62 380	84 659 913
Deposits by customers	895 003 621	118 782	3 569 828	898 692 231
Debt securities issued	42 486 328	78 668 437	-	121 154 765
	1 014 978 685	89 940 663	3 632 208	1 108 551 556
Net position	(90 624 714)	44 687 634	111 237 253	65 300 173

The majority of non-financial assets and liabilities is located in Russia.

30 Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

RUB'000	Financial assets at fair value through profit or loss	Financial assets available for sale
2016		
Carrying amount of assets	6 543 543	19 818 447
Carrying amount of associated liabilities	5 927 099	17 377 715
2015		
Carrying amount of assets	2 654 432	2 115 753
Carrying amount of associated liabilities	1 978 085	2 066 562

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognized them. These securities are presented as “pledged under sale and repurchase agreements” in notes 11 and 12. The cash received is recognized as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central Bank of the Russian Federation and deposits by credit and other financial institutions (note 16 and 17). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

RUB'000	Held for trading	Loans and receivables	Available- for-sale	Other amortised	Total carrying amount	Fair value
Cash and cash equivalents	-	373 326 515	-	-	373 326 515	373 326 515
Obligatory reserves with the CBR	-	7 286 909	-	-	7 286 909	7 286 909
Deposits in credit and other financial institutions	-	403 480 148	-	-	403 480 148	403 480 148
Financial instruments at fair value through profit or loss	83 908 535	-	-	-	83 908 535	83 908 535
Available-for-sale financial assets	-	-	45 903 483	-	45 903 483	45 791 826
Loans to customers	-	626 535 060	-	-	626 535 060	628 248 181
Other financial assets	-	1 845 627	-	-	1 845 627	1 845 627
	83 908 535	1 412 474 259	45 903 483	-	1 542 286 277	1 543 887 741

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RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised	Total carrying amount	Fair value
Deposits by the CBR	-	-	-	247 169 523	247 169 523	247 169 523
Deposits by credit and other financial institutions	-	-	-	381 624 465	381 624 465	381 624 465
Deposits by customers	-	-	-	689 495 720	689 495 720	694 976 416
Debt securities issued	-	-	-	137 203 416	137 203 416	139 661 340
Other financial liabilities	1 081 474	-	-	1 884 874	2 966 348	2 966 348
	1 081 474	-	-	1 457 377 998	1 458 459 472	1 466 398 092

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2016 are:

- discount rates from 9.5% to 18.1% (roubles) and from 3.5% to 10.0% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.6% to 28.0% (roubles) and from 10.1% to 12.5% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.5% to 10.5% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 8.1% to 9.8% (roubles) and from 0.6% to 1.6% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	138 014 586	-	-	138 014 586	138 014 586
Obligatory reserves with the CBR	-	5 936 111	-	-	5 936 111	5 936 111
Deposits in credit and other financial institutions	-	277 295 869	-	-	277 295 869	277 295 869
Financial instruments at fair value through profit or loss	72 136 989	-	-	-	72 136 989	72 136 989
Available-for-sale financial assets	-	-	87 402 909	-	87 402 909	87 291 642
Loans to customers	-	593 065 265	-	-	593 065 265	598 244 308
Other financial assets	-	2 433 915	-	-	2 433 915	2 433 915
	72 136 989	1 016 745 746	87 402 909	-	1 176 285 644	1 181 353 420
Deposits by the CBR	-	-	-	4 044 647	4 044 647	4 044 647
Deposits by credit and other financial institutions	-	-	-	84 659 913	84 659 913	84 659 913
Deposits by customers	-	-	-	898 692 231	898 692 231	912 243 118
Debt securities issued	-	-	-	121 154 765	121 154 765	119 441 817
Other financial liabilities	782 834	-	-	911 320	1 694 154	1 694 154
	782 834	-	-	1 109 462 876	1 110 245 710	1 122 083 649

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2015 are:

- discount rates from 12.1 to 15.5% (roubles) and from 4.5% to 10.8% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.3% to 23.0% (roubles) and from 10.4% to 19.0% (foreign currency) are used for discounting future cash flows from loans to individuals;

- discount rates from 8.0% to 12.0% (roubles) and from 1.3% to 3.0% (foreign currency) are used for discounting future cash flows from retail deposits;
- discount rates from 9.5% to 12.0% (roubles) and from 2.0% to 4.9% (foreign currency) are used for discounting future cash flows from corporate deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognized valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 111 657 thousand (31 December 2015: RUB 111 267 thousand) cannot be determined.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortized cost for which amortized cost does not approximate their carrying amount as at 31 December 2016 and 31 December 2015:

31 December 2016	Level 1 RUB'000	Level 2 RUB'000	Level 3 RUB'000	Valuation technique used for Level 2 and 3	Total RUB'000
Financial assets at fair value through profit or loss	81 359 524	2 549 011	-	Discounted cash flows	83 908 535
Available-for-sale securities	45 791 826	-	-	Discounted cash flows	45 791 826
Loans to customers	-	-	626 535 060	Discounted cash flows	626 535 060
Deposits by customers	-	694 976 416	-	Discounted cash flows	694 976 416
Debt securities issued	138 515 696	1 145 644	-	Discounted cash flows	139 661 340
Other financial liabilities- Derivatives	-	1 081 474	-	Discounted cash flows	1 081 474
31 December 2015	Level 1 RUB'000	Level 2 RUB'000	Level 3 RUB'000	Valuation technique used for Level 2 and 3	Total RUB'000
Financial assets at fair value through profit or loss	71 210 799	926 190	-	Discounted cash flows	72 136 989
Available-for-sale securities	74 338 170	12 953 472	-	Discounted cash flows	87 291 642
Loans to customers	-	-	598 244 308	Discounted cash flows	598 244 308
Deposits by customers	-	912 243 118	-	Discounted cash flows	912 243 118
Debt securities issued	118 397 258	1 044 559	-	Discounted cash flows	119 441 817
Other financial liabilities- Derivatives	-	782 834	-	Discounted cash flows	782 834

During 2016 and 2015 there were no transfers of assets between Level 1 and Level 2.

32 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	2016 RUB'000	2015 RUB'000
Profit for the period	10 873 617	1 509 471
Weighted average number of ordinary shares in issue	23 879 709 866	17 430 172 429
Basic and diluted earnings per share in RUB (per share)	0.46	0.09

33 Acquisitions and disposals

Acquisition of subsidiary

On 18 August 2016 the Group acquired 100% shares in LLC "Bank SKS", a company specialising on investment banking activities. The purchase consideration was RUB 560 000 thousand, which was settled in cash.

The fair value amounts of assets and liabilities of the acquired subsidiary recognized in the Group's consolidated financial statements were as follows at the date of acquisition:

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RUB'000	Recognized amounts on acquisition
ASSETS	
Cash and cash equivalents	366 370
Other assets	206 222
LIABILITIES	
Current accounts and deposits from customers	11 550
Deferred tax liabilities	955
Other liabilities	87
Net identifiable assets and liabilities	560 000
Consideration paid	560 000
Cash acquired	366 370
Net cash outflow	(193 630)

The amounts of revenue and profit or loss of LLC "Bank SKS" since the acquisition date and for the year ended 31 December 2016 as though the acquisition had been as of the beginning of the reporting year do not have a significant effect on consolidated revenue and profit or loss.

34 Events subsequent to the reporting date

In January 2017 the Bank paid out the 5th coupon in amount of RUB 216.96 million or RUB 55.45 per one bond on exchange bonds series BO-10. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In January 2017 the Bank paid out the 5th coupon in amount of RUB 754.04 million or RUB 60.49 per one bond on exchange bonds series BO-11. The issue was originally placed on 10 July 2014 in the amount of RUB 5 billion with a maturity of 5 years and additional issue on 24 December 2014 in the amount of RUB 10 billion.

In February 2017 the Bank paid out the 8th coupon in the amount of RUB 122.16 million or RUB 61.08 per one bond on domestic bonds series 12. The issue was originally placed on 27 February 2013 with a maturity of 5.5 years. The nominal value of the issue is RUB 2 billion.

Chairman of the Management Board

Chief Accountant

15 March 2017



Vladimir A. Chubar

Svetlana V. Sass

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Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (open joint-stock company)

We have audited the accompanying consolidated financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Credit Bank of Moscow (open joint-stock company).

Registered by the Central Bank of the Russian Federation on 18 August 1999, Registration No. 1978.

Entered in the Unified State Register of Legal Entities on 18 November 2002 by the Department of Federal Tax Service, Registration No. 1027739555282, Certificate series 77 No. 004840877.

Address of audited entity: 2 (bldg. 1), Lukov pereulok, Moscow, Russia, 107045.

Independent auditor: JSC KPMG, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

Report of findings from procedures performed in accordance with the requirements of Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal control and organising risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2016 as established by the Bank of Russia; and
- compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to analyses, inspections of documents, comparisons of the Bank's internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.


- Based on our procedures with respect to the Group's compliance with mandatory ratios as established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2016 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

- Based on our procedures with respect to compliance of elements of the Group's internal control and organization of its risk management systems with requirements established by the Bank of Russia, we found that:
 - as at 31 December 2015, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
 - the Bank's internal documentation, effective on 31 December 2015, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;
 - as at 31 December 2015, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2015, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2015, the Supervisory Board and executive management of the Bank had responsibility for monitoring the Group's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the objective of monitoring effectiveness of the Group's risk management procedures and their consistent application during 2015 the Supervisory Board and executive management of the Bank periodically discussed reports prepared by the risk management and internal audit functions, and considered proposed corrective actions.

Our procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.



Kolosov A.E.

Director

Power of attorney dated 16 March 2015, No. 44/15

JSC KPMG

Moscow, Russian Federation



28 March 2016

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2015

	Notes	2015 RUB'000	2014 RUB'000
Interest income	4	89 210 510	58 183 385
Interest expense	4	(59 922 036)	(32 300 883)
Net interest income	4	29 288 474	25 882 502
Provision for impairment of loans	13	(26 035 950)	(11 645 153)
Net interest income after provision for impairment of loans		3 252 524	14 237 349
Fee and commission income	5	9 369 110	9 027 215
Fee and commission expense	5	(1 717 768)	(1 736 309)
Net gain (loss) on financial instruments at fair value through profit or loss		1 201 576	(2 109 641)
Net realized loss and impairment of available-for-sale assets		(400 913)	(188 767)
Net foreign exchange gains (losses)		2 742 778	(2 485 718)
State deposit insurance scheme contributions		(707 566)	(567 995)
Other operating (loss) income, net		(549 361)	468 218
Non-interest income		9 937 856	2 407 003
Operating income		13 190 380	16 644 352
Salaries and employment benefits	6	(5 518 561)	(5 335 148)
Administrative expenses	6	(4 201 011)	(3 718 996)
Depreciation of property and equipment	14	(618 295)	(529 725)
Provisions for impairment of other assets and credit related commitments	7	(907 971)	(42 945)
Operating expense		(11 245 838)	(9 626 814)
Profit before income taxes		1 944 542	7 017 538
Income tax	8	(435 071)	(1 448 205)
Profit for the period		1 509 471	5 569 333
Other comprehensive income (loss)			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation of buildings		(433 440)	-
Income tax related to other comprehensive loss		86 688	-
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale securities			
- Net change in fair value		2 021 394	(1 528 714)
- Net change in fair value transferred to profit or loss		(149 397)	(21 148)
Income tax related to other comprehensive loss		(374 398)	309 972
Other comprehensive income (loss) for the year, net of tax		1 150 847	(1 239 890)
Total comprehensive income for the year		2 660 318	4 329 443
Basic and diluted earnings per share (in RUB per share)	32	0.09	0.38

Chairman of the Management Board

Vladimir A. Chubar

Acting Chief Accountant

Ekaterina V. Toloka

28 March 2016



The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2015

	Notes	31 December 2015 RUB'000	31 December 2014 RUB'000
ASSETS			
Cash and cash equivalents	9	138 014 586	118 696 921
Obligatory reserves with the Central Bank of the Russian Federation		5 936 111	3 360 070
Due from credit and other financial institutions	10	277 295 869	6 880 576
Financial instruments at fair value through profit or loss, including	11	72 136 989	49 864 611
- <i>Pledged under sale and repurchase agreements</i>		2 654 432	138 501
Available-for-sale securities, including	12	87 402 909	11 111 625
- <i>Pledged under sale and repurchase agreements</i>		2 115 753	-
Loans to customers	13	593 065 265	378 014 328
Property and equipment	14	7 004 418	7 399 340
Current tax asset		1 759 906	1 311 489
Goodwill		-	301 089
Other assets	15	25 584 575	7 898 943
Total assets		1 208 200 628	584 838 992
LIABILITIES AND EQUITY			
Deposits by the Central Bank of the Russian Federation	16	4 044 647	11 594 431
Deposits by credit and other financial institutions	17	84 659 913	54 302 953
Deposits by customers	18	898 692 231	334 852 198
Debt securities issued	19	121 154 765	118 621 304
Deferred tax liability	8	2 380 552	2 196 335
Current tax liability		-	13 720
Other liabilities	20	4 930 058	3 270 561
Total liabilities		1 115 862 166	524 851 502
Equity			
Share capital	21	24 741 640	15 329 692
Additional paid-in capital		35 047 463	9 768 757
Shares in the process of issue	21	-	5 000 000
Revaluation surplus for buildings		769 176	1 115 928
Revaluation reserve for available-for-sale securities		220 070	(1 277 529)
Retained earnings		31 560 113	30 050 642
Total equity		92 338 462	59 987 490
Total liabilities and equity		1 208 200 628	584 838 992

Commitments and Contingencies

Chairman of the Management Board

Acting Chief Accountant

22-24



Vladimir A. Chubar

Ekaterina V. Toloka

The consolidated statement of financial position is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
as at 31 December 2015

	Notes	2015 RUB'000	2014 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		82 579 116	55 752 518
Interest payments		(57 056 559)	(31 091 218)
Fees and commission receipts		9 853 178	8 705 726
Fees and commission payments		(1 717 768)	(1 817 535)
Net receipts (payments) from operations with securities		38 301	(1 321 414)
Net (payments) receipts from foreign exchange		(1 246 606)	5 643 301
State deposit insurance scheme contributions payments		(670 637)	(547 564)
Net other operating income receipts		1 023 813	593 889
Salaries and employment benefits paid		(5 456 036)	(5 375 435)
Administrative expenses paid		(4 883 334)	(3 116 554)
Income tax paid		(973 465)	(1 920 608)
Operating cash flows before changes in operating assets and liabilities		21 490 003	25 505 106
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		(2 559 553)	(561 083)
Due from credit and other financial institutions		(243 752 224)	5 810 951
Financial instruments at fair value through profit or loss		(19 468 573)	(12 504 902)
Loans to customers		(208 355 528)	(47 873 795)
Other assets		(13 930 901)	(1 293 289)
Increase (decrease) in operating liabilities			
Deposits by the Central Bank of the Russian Federation		(15 523 831)	(2 990 217)
Deposits by credit and other financial institutions except syndicated and subordinated loans		37 250 376	(774 033)
Deposits by customers except subordinated loans		498 370 144	38 781 923
Promissory notes		(3 966 999)	(1 899 846)
Other liabilities		23 546	38 875
Net cash from operations		49 576 460	2 239 690
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase) sale of available-for-sale securities		(67 490 700)	10 911 611
Net purchase of property and equipment		(476 594)	(1 408 768)
Net receipt on acquisition of subsidiary		2 576 481	-
Net cash (used in) from investing activities		(65 390 813)	9 502 843

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Cash Flows
as at 31 December 2015

	Notes	2015 RUB'000	2014 RUB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock		29 690 654	-
Proceeds from subordinated deposits		20 828 090	5 000 000
Proceeds from syndicated borrowings		251 237	14 194 180
Repayment of syndicated borrowings		(22 696 240)	(544 980)
Proceeds from issuance of subordinated bonds		-	5 000 000
Proceeds from issuance of other bonds		3 000 000	25 497 030
Repayment of other bonds		(11 998 080)	(19 409 155)
Net cash from financing activities		19 075 661	29 737 075
Effect of exchange rates changes on cash and cash equivalents		16 056 357	10 152 393
Change in cash and cash equivalents		19 317 665	51 632 001
Cash and cash equivalents, beginning of the period		118 696 921	67 064 920
Cash and cash equivalents, end of the period	9	138 014 586	118 696 921

Chairman of the Management Board

Acting Chief Accountant



Vladimir A. Chubar

Ekaterina V. Toloka

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (open joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

	Share capital RUB'000	Additional paid-in capital RUB'000	Shares in the process of issue RUB'000	Revaluation surplus for buildings RUB'000	Revaluation reserve for available-for- sale securities RUB'000	Retained earnings RUB'000	Total equity RUB'000
1 January 2014	15 329 692	9 768 757	-	1 115 928	(37 639)	24 481 309	50 658 047
Total comprehensive income for the year	-	-	-	-	(1 239 890)	5 569 333	4 329 443
Transactions with owners, recorded directly in equity							
Shares in the process of issue (note 21)	-	-	5 000 000	-	-	-	5 000 000
Total transactions with owners, recorded directly in equity	-	-	5 000 000	-	-	-	5 000 000
31 December 2014	15 329 692	9 768 757	5 000 000	1 115 928	(1 277 529)	30 050 642	59 987 490
Total comprehensive income for the year	-	-	-	(346 752)	1 497 599	1 509 471	2 660 318
Transactions with owners, recorded directly in equity							
Shares issued (note 21)	9 411 948	25 278 706	(5 000 000)	-	-	-	29 690 654
Total transactions with owners, recorded directly in equity	9 411 948	25 278 706	(5 000 000)	-	-	-	29 690 654
31 December 2015	24 741 640	35 047 463	-	769 176	220 070	31 560 113	92 338 462

Chairman of the Management Board

Acting Chief Accountant



Vladimir A. Chubar

Ekaterina V. Toloka

The consolidated statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (open joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central Bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 15 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 62 branches, 927 ATMs and 5 443 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			31 December 2015	31 December 2014
CBOM Finance p.l.c.	Ireland	Raising finance	100%	100%
MKB-Leasing	Russia	Finance leasing	100%	100%
M-Leasing	Russia	Finance leasing	100%	100%
CJSC Mortgage Agent MKB	Russia	Raising finance	100%	100%
NKO INKAKHRAN (JSC)	Russia	Cash handling	100%	-

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c." and CJSC "Mortgage Agent MKB". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014. In 2015 the Bank acquired 100% of shares in NKO "INKAKHRAN" (JSC) (note 33).

Shareholders

The Bank's shareholders as at 31 December 2015 are:

- LLC Concern Rossium - 56.83%
- REGION Portfolio investments, LLC - 9.47%
- RegionFinanceResurs, JSC - 8.69%
- European Bank for Reconstruction and Development (EBRD) - 4.54%
- PJSC Rosgosstrakh - 2.89%
- RBOF Holding Company I Ltd - 2.79%
- Powerboom Investments Limited - 2.30%
- International Finance Corporation (IFC) - 1.75%
- Other shareholders - 10.74%.

The majority shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale securities are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 in respect of loan impairment estimates, in note 14 in respect of buildings revaluation, in note 31 in respect of estimates of fair values of financial assets and liabilities.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and nostro accounts with the Central Bank of the Russian Federation, and due from credit and other financial institutions with maturity of less than one month in cash and cash equivalents. The minimum reserve deposit with the Central Bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments which are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central Bank of the Russian Federation and deposits by credit and other financial institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and due from credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments (“net investment in leases”) is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term.

Group as lessee

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	50
Furniture and other property	4-6
Computers and office equipment	4
Vehicles	5

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably. Financial guarantee liabilities and allowance for credit related commitments are included in other liabilities.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service has been provided.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

Comparative information

The presentation of certain captions in the consolidated statement of profit or loss and other comprehensive income relating to interest income, fee and commission income, fee and commission expense and administrative expenses was changed for the year ended 31 December 2015 in comparison with the year ended 31 December 2014 to better present the nature of the underlying transactions. Current tax asset is presented separately in the consolidated statement of financial position as at 31 December 2015, as at 31 December 2014 it was presented within other assets. Comparative information is reclassified to conform to changes in presentation in the current year. The effect of this change in presentation is as follows:

	31 December 2014 as currently reported RUB'000	Reclassification amounts RUB'000	31 December 2014 as previously reported RUB'000
Reclassification of fees and commissions related to loans to customers from "Fee and commission income" to "Interest income"			
Interest income	58 183 385	74 843	58 108 542
Fee and commission income	9 027 215	(74 843)	9 102 058
Reclassification of property insurance expenses from "Fee and commission expense" to "Administrative expenses"			
Fee and commission expense	(1 736 309)	81 226	(1 817 535)
Administrative expenses	(3 718 996)	(81 226)	(3 637 770)
Changes in presentation of "Current tax asset"			
Current tax asset	1 311 489	1 311 489	-
Other assets	7 898 943	(1 311 489)	9 210 432

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of new standards on its financial position or performance.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The Group has not analyzed the impact of these changes yet. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2015 RUB'000	2014 RUB'000
Interest income		
Loans to customers	70 292 773	50 815 895
Financial instruments at fair value through profit or loss and available-for-sale securities	9 748 051	5 272 563
Due from credit and other financial institutions and the Central Bank of the Russian Federation	9 169 686	2 094 927
	89 210 510	58 183 385
Interest expense		
Deposits by customers	(44 195 297)	(21 151 465)
Debt securities issued	(11 398 722)	(7 754 569)
Deposits by credit and other financial institutions and the Central Bank of the Russian Federation	(4 328 017)	(3 394 849)
	(59 922 036)	(32 300 883)
Net interest income	29 288 474	25 882 502

5 Net fee and commission income

	2015 RUB'000	2014 RUB'000
Fee and commission income		
Plastic cards	1 923 007	1 631 646
Guarantees and letters of credit	1 591 936	1 715 822
Cash handling	1 546 129	1 247 386
Settlements and wire transfers	1 313 679	1 613 713
Insurance contracts processing	1 276 027	2 047 498
Other cash operations	923 604	344 384
Currency exchange commission	353 201	220 613
Other	441 527	206 153
	9 369 110	9 027 215
Fee and commission expense		
Settlements, wire transfers and plastic cards	(1 569 293)	(1 522 351)
Other	(148 475)	(213 958)
	(1 717 768)	(1 736 309)
Net fee and commission income	7 651 342	7 290 906

6 Salaries, employment benefits and administrative expenses

	2015 RUB'000	2014 RUB'000
Salaries	4 286 486	4 263 245
Social security costs	1 102 588	953 730
Other	129 487	118 173
Salaries and employment benefits	5 518 561	5 335 148
Advertising and business development	968 749	840 848
Occupancy	816 209	944 099
Operating taxes	531 235	573 843
Property maintenance	396 450	357 596
Security	349 277	299 589
Transport	272 045	97 982
Loss on revaluation of buildings	223 672	-
Computer maintenance and software expenses	166 357	109 339
Communications	129 379	101 044
Property insurance	91 887	81 226
Write-off of low-value fixed assets	90 958	173 663
Other	164 793	139 767
Administrative expenses	4 201 011	3 718 996

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	2015 RUB'000	2014 RUB'000
Provision for impairment of credit related commitments	908 860	(187 311)
Provision for impairment of other assets	(889)	230 256
Other provisions	907 971	42 945

8 Income tax

	2015 RUB'000	2014 RUB'000
Current tax charge	476 605	822 025
Deferred taxation	(41 534)	626 180
Income tax expense	435 071	1 448 205

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2015 and 2014.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	31 December 2015 RUB'000	%	31 December 2014 RUB'000	%
Income before tax	1 944 542		7 017 538	
Income tax using the applicable tax rate	388 908	20.0%	1 403 508	20.0%
Income taxed at lower rates	(5 341)	(0.3%)	(41 067)	(0.6%)
Net non-deductible costs	51 504	2.7%	85 764	1.2%
Income tax expense	435 071	22.4%	1 448 205	20.6%

Movements in temporary differences during the years ended 31 December 2015 and 2014 are presented as follows.

RUB'000	Balance 1 January 2015	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized on acquisition of subsidiary	Balance 31 December 2015
Due from credit and other financial institutions	2 836	(245)	-	-	2 591
Financial instruments at fair value through profit or loss	(2 200)	175 058	-	-	172 858
Available-for-sale securities	334 840	1 244 592	374 398	-	1 953 830
Loans to customers	1 531 144	(276 602)	-	-	1 254 542
Property and equipment	476 077	(59 212)	(86 688)	(13 085)	317 092
Other assets	(48 741)	(645 099)	-	(16 481)	(710 321)
Deposits by credit and other financial institutions	19 918	(19 536)	-	-	382
Deposits by customers	390	11 679	-	-	12 069
Debt securities issued	45 835	(9 102)	-	-	36 733
Other liabilities	(163 764)	(463 067)	-	(32 393)	(659 224)
Total deferred tax liability (asset)	2 196 335	(41 534)	287 710	(61 959)	2 380 552

RUB'000	Balance 1 January 2014	Recognized in profit or loss	Recognized in other comprehensive income and equity	Balance 31 December 2014
Due from credit and other financial institutions	13 569	(10 733)	-	2 836
Financial instruments at fair value through profit or loss	70 510	(72 710)	-	(2 200)
Available-for-sale securities	(13 614)	658 426	(309 972)	334 840
Loans to customers	1 633 528	(102 384)	-	1 531 144
Property and equipment	425 200	50 877	-	476 077
Other assets	(39 457)	(9 284)	-	(48 741)
Deposits by credit and other financial institutions	2 278	17 640	-	19 918
Deposits by customers	-	390	-	390
Debt securities issued	46 395	(560)	-	45 835
Other liabilities	(258 282)	94 518	-	(163 764)
Total deferred tax liability (asset)	1 880 127	626 180	(309 972)	2 196 335

Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income comprise the following:

RUB'000	2015			2014		
	Amount before tax	Tax benefit / (expense)	Amount net-of-tax	Amount before tax	Tax benefit	Amount net-of-tax
Revaluation surplus for buildings	(433 440)	86 688	(346 752)	-	-	-
Revaluation reserve for available-for-sale securities	1 871 997	(374 398)	1 497 599	(1 549 862)	309 972	(1 239 890)
Other comprehensive income (loss)	1 438 557	(287 710)	1 150 847	(1 549 862)	309 972	(1 239 890)

9 Cash and cash equivalents

	31 December 2015 RUB'000	31 December 2014 RUB'000
Cash on hand	17 344 885	12 529 291
Correspondent account with the Central Bank of the Russian Federation	27 453 843	8 522 827
Nostro accounts with other banks		
rated from AA+ to AA-	5 328 877	11 851 004
rated from A+ to A-	5 690 810	7 233 613
rated from BBB+ to BBB-	6 830 951	3 986 168
rated from BB+ to BB-	882 723	4 084 581
rated from B+ to B-	184 616	75 452
not rated	877 347	423 064
Total nostro accounts with other banks	19 795 324	27 653 882
Due from credit and other financial institutions with maturity of less than 1 month		
Deposits with the Central Bank of the Russian Federation	-	36 600 000
rated from A+ to A-	17 618 251	8 392 430
rated from BBB+ to BBB-	6 385 399	2 000 287
rated from BB+ to BB-	12 850 750	292 413
rated from B+ to B-	21 887 770	16 655 517
not rated	14 678 364	6 050 274
Total due from credit and other financial institutions with maturity of less than 1 month	73 420 534	69 990 921
Total cash and cash equivalents	138 014 586	118 696 921

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central Bank of the Russian Federation represents balances held with the Central Bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 31 December 2015, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 50 735 211 thousand (31 December 2014: RUB 14 785 302 thousand).

As at 31 December 2015, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 56 143 699 thousand.

As at 31 December 2015, not rated due from credit and other financial institutions with maturity of less than 1 month includes term deposits secured by highly liquid debt securities under agreements to resell (reverse repo) in the amount of RUB 14 478 366 thousand (31 December 2014: RUB 6 041 252 thousand).

As at 31 December 2015, the Group has one counterparty (31 December 2014: no counterparties except for the CBR) whose nostro accounts with other banks and deposits with maturity of less than 1 month exceed 10% of total nostro accounts with other banks and deposits with maturity of less than 1 month from credit and other financial institutions. The gross value of these balances as at 31 December 2015 is RUB 17 618 251 thousand (31 December 2014: nil).

Information about the currency and maturity of cash and cash equivalents is presented in note 29.

10 Due from credit and other financial institutions

	31 December 2015 RUB'000	31 December 2014 RUB'000
Term deposits		
rated from BBB+ to BBB-	44 132 015	88 000
rated from BB+ to BB-	22 211 830	-
rated from B+ to B-	26 076 109	6 792 576
rated from CCC+ to CCC-	27 792 362	-
not rated	157 083 553	-
Total due from credit and other financial institutions	277 295 869	6 880 576

No amounts due from credit and other financial institutions are impaired or past due.

As at 31 December 2015, receivables under reverse sale and repurchase agreements included in due from credit and other financial institutions are RUB 238 815 412 thousand (31 December 2014: RUB 4 598 381 thousand).

As at 31 December 2015, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 269 671 374 thousand.

Included in not rated and rated from CCC+ to CCC- due from credit and other financial institutions are receivables in the amount of RUB 181 062 949 thousand secured by highly liquid rated debt securities under agreements to resell (reverse repo).

As at 31 December 2015, the Group has three counterparties (31 December 2014: four counterparties) whose deposit balances exceed 10% of total due from credit and other financial institutions. The gross value of these balances as at 31 December 2015 is RUB 210 587 665 thousand (31 December 2014: RUB 6 792 576 thousand).

Information about the currency and maturity and effective interest rates on amounts due from credit and other financial institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2015 RUB'000	31 December 2014 RUB'000
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	508 810	-
Moscow Government bonds	223 936	115 020
Regional authorities and municipal bonds	3 391 004	7 244 254

	31 December 2015 RUB'000	31 December 2014 RUB'000
Corporate bonds		
rated AAA	170 475	842 067
from BBB+ to BBB-	22 847 946	9 907 665
from BB+ to BB-	20 382 401	15 233 908
from B+ to B-	15 260 063	8 081 725
from CCC+ to CCC-	-	47 184
not rated	5 771 732	7 238 900
Derivative financial instruments	926 190	1 015 387
Total held by the Group	69 482 557	49 726 110
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Regional authorities and municipal bonds	2 303 352	138 501
Corporate bonds		
from BBB+ to BBB-	219 288	-
from BB+ to BB-	131 792	-
Total pledged under sale and repurchase agreements	2 654 432	138 501
Total financial instruments at fair value through profit or loss	72 136 989	49 864 611

No financial instruments at fair value through profit or loss are past due.

As at 31 December 2015, debt instruments in the amount of RUB 64 464 969 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2014: RUB 43 154 979 thousand).

Derivative financial instruments

The table below summarises, by major currencies, the contractual amounts of spot and forward exchange contracts outstanding as at 31 December 2015 and 2014 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resulting unrealised gains and losses on these unmatured contracts are recognized in profit or loss and in financial instruments at fair value through profit or loss or other liabilities, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2015 RUB'000	2014 RUB'000	2015	2014
Buy RUB sell USD				
Less than 3 months	46 951 167	6 385 328	72.0062	56.6864
Buy RUB sell EUR				
Less than 3 months	16 503 696	-	79.1222	-
Between 3 months and 6 months	-	5 809 130	-	76.2319
Buy USD sell RUB				
Less than 3 months	14 527 633	11 876 712	73.8118	55.8263
Between 1 years and 2 years	7 078 650	-	70.7865	-
Buy EUR sell RUB				
Less than 3 months	11 869 556	-	79.0982	-
Between 3 months and 6 months	-	5 758 920	-	67.7520

	Notional amount		Weighted average contractual exchange rates	
	2015 RUB'000	2014 RUB'000	2015	2014
Buy USD sell EUR				
Less than 3 months	3 984 860	-	0.9109	-
Between 3 months and 6 months	3 984 860	-	0.8768	-
Between 6 months and 9 months	3 984 860	-	0.8677	-
Buy EUR sell USD				
Less than 3 months	885 689	-	1.0938	-
Buy GBP sell RUB				
Less than 3 months	5 940	-	108.0000	-
Buy CNY sell RUB				
Less than 3 months	-	5 110	-	9.3247

12 Available-for-sale securities

	31 December 2015 RUB'000	31 December 2014 RUB'000
<u>Held by the Group</u>		
Corporate bonds		
from BBB+ to BBB-	23 519 257	5 337 406
from BB+ to BB-	40 615 035	3 968 073
from B+ to B-	5 827 315	1 613 542
from CCC+ to CCC-	121 821	-
not rated	3 159 347	-
Promissory notes		
from BB+ to BB-	8 389 557	-
from B+ to B-	3 543 557	-
not rated	-	192 549
Equity investments	111 267	55
Total held by the Group	85 287 156	11 111 625
<u>Pledged under sale and repurchase agreements</u>		
Corporate bonds		
from BBB+ to BBB-	249 696	-
from BB+ to BB-	1 866 057	-
Total pledged under sale and repurchase agreements	2 115 753	-
Total available-for-sale securities	87 402 909	11 111 625

No available-for-sale securities are past due.

As at 31 December 2015, debt instruments in the amount of RUB 62 223 479 thousand are qualified to be pledged against borrowings from the Central Bank of the Russian Federation (31 December 2014: RUB 9 707 306 thousand).

13 Loans to customers

	31 December 2015 RUB'000	31 December 2014 RUB'000
Loans to corporate clients	510 205 763	265 917 879
Impairment allowance	(27 782 541)	(8 366 428)
Loans to corporate clients, net	482 423 222	257 551 451
Loans to individuals		
Auto loans	3 307 156	8 493 575
Mortgage loans	21 559 432	19 665 252
Credit card loans	4 141 275	5 163 899
Other loans to individuals	90 725 254	94 949 919
Impairment allowance	(9 091 074)	(7 809 768)
Total loans to individuals, net	110 642 043	120 462 877
Gross loans to customers	629 938 880	394 190 524
Impairment allowance	(36 873 615)	(16 176 196)
Net loans to customers	593 065 265	378 014 328

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2015 and 31 December 2014:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Loans to customers		
- Not past due	562 343 490	361 562 775
- Not past due but impaired	21 794 590	18 074 192
- Overdue less than 31 days	7 398 954	3 341 060
- Overdue 31-60 days	4 356 496	1 263 771
- Overdue 61-90 days	1 606 736	881 005
- Overdue 91-180 days	10 882 199	2 558 685
- Overdue 181-360 days	18 205 851	4 614 081
- Overdue more than 360 days	3 350 564	1 894 955
Total gross loans to customers	629 938 880	394 190 524
Impairment allowance	(36 873 615)	(16 176 196)
Total net loans to customers	593 065 265	378 014 328

As at 31 December 2015, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 45 800 800 thousand, which represents 7.3% of the gross loan portfolio (31 December 2014: RUB 14 553 557 thousand and 3.7% respectively).

Non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 32 438 614 thousand or 5.1% of the gross loan portfolio (31 December 2014: RUB 9 067 721 thousand and 2.3%, respectively).

As at 31 December 2015, the ratio of total impairment allowance to overdue loans equals 80.5% and the ratio of total impairment allowance to NPLs equals 113.7% (31 December 2014: 111.2% and 178.4%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2015 and 31 December 2014 are as follows:

	2015 RUB'000	2014 RUB'000
Balance at the beginning of the period	16 176 196	8 919 003
Net charge	26 035 950	11 645 153
Net write-offs	(5 338 531)	(4 387 960)
Balance at the end of the period	36 873 615	16 176 196

As at 31 December 2015, net interest accrued on overdue and impaired loans amounts to RUB 803 123 thousand (31 December 2014: RUB 802 934 thousand).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2015 and 31 December 2014:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Loans to corporate clients		
- Not past due	456 119 669	244 633 302
- Not past due but impaired	21 794 590	18 074 192
- Overdue less than 31 days	5 906 042	1 755 632
- Overdue 31-60 days	3 180 256	337 509
- Overdue 61-90 days	213 323	107 039
- Overdue 91-180 days	7 965 233	386 288
- Overdue 181-360 days	14 148 922	607 032
- Overdue more than 360 days	877 728	16 885
Total gross loans to corporate clients	510 205 763	265 917 879
Impairment allowance	(27 782 541)	(8 366 428)
Total net loans to corporate clients	482 423 222	257 551 451

As at 31 December 2015, the Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus two percent, the impairment allowance as at 31 December 2015 would decrease/increase by RUB 9 648 464 thousand (31 December 2014: RUB 5 151 029 thousand).

The following table represents information about concentration of loans to corporate clients as at 31 December 2015 and 31 December 2014:

	31 December 2015		31 December 2014	
	RUB'000	% of total loan portfolio	RUB'000	% of total loan portfolio
Top 5 clients	89 083 321	14.1	44 086 955	11.2
Top 10 clients	164 471 465	26.1	77 848 603	19.7
Top 20 clients	258 572 251	41.0	118 347 021	30.0

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2015 and 31 December 2014:

	31 December 2015 RUB 000	31 December 2014 RUB 000
Securities	83 371 235	31 324 899
Real estate	82 071 384	67 975 785
Goods in turnover	28 178 103	24 369 121
Equipment and motor vehicles	14 548 057	11 157 034
Bank's own debt securities	8 471 000	182 726
Guaranteed deposits	4 992 040	-
Claims for contract receivables	3 105 425	11 495 806
Corporate guarantees and no collateral	257 685 978	111 046 080
	482 423 222	257 551 451

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 8 901 305 thousand higher without any collateral as at 31 December 2015 (31 December 2014: RUB 3 019 988 thousand).

Collateral obtained

During the year ended 31 December 2015, the Group obtained certain assets the carrying amount of which as at 31 December 2015 was RUB 238 415 thousand by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2014: RUB 3 525 081 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December 2015 and 31 December 2014 are as follows:

	2015 RUB'000	2014 RUB'000
Balance at the beginning of the period	8 366 428	4 453 275
Net charge	20 539 441	4 811 710
Net write-offs	(1 123 328)	(898 557)
Balance at the end of the period	27 782 541	8 366 428

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2015:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	3 138 330	18 746 326	3 439 798	80 899 367	106 223 821
- Overdue less than 31 days	23 724	221 695	98	1 247 395	1 492 912
- Overdue 31-60 days	9 525	78 073	39 944	1 048 698	1 176 240
- Overdue 61-90 days	9 985	125 636	33 930	1 223 862	1 393 413
- Overdue 91-180 days	33 199	1 085 725	122 832	1 675 210	2 916 966
- Overdue 181-360 days	57 814	461 521	331 872	3 205 722	4 056 929
- Overdue more than 360 days	34 579	840 456	172 801	1 425 000	2 472 836
Gross loans	3 307 156	21 559 432	4 141 275	90 725 254	119 733 117
Impairment allowance	(113 863)	(902 046)	(545 475)	(7 529 690)	(9 091 074)
Net loans	3 193 293	20 657 386	3 595 800	83 195 564	110 642 043

The following table provides information on the credit quality of loans to individuals as at 31 December 2014:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	8 231 688	18 613 314	4 285 871	85 798 600	116 929 473
- Overdue less than 31 days	38 895	196 019	1 521	1 348 993	1 585 428
- Overdue 31-60 days	23 094	112 733	81 393	709 042	926 262
- Overdue 61-90 days	17 596	42 209	71 866	642 295	773 966
- Overdue 91-180 days	44 461	160 623	178 233	1 789 080	2 172 397
- Overdue 181-360 days	93 655	164 958	391 589	3 356 847	4 007 049
- Overdue more than 360 days	44 186	375 396	153 426	1 305 062	1 878 070
Gross loans	8 493 575	19 665 252	5 163 899	94 949 919	128 272 645
Impairment allowance	(120 461)	(305 563)	(618 437)	(6 765 307)	(7 809 768)
Net loans	8 373 114	19 359 689	4 545 462	88 184 612	120 462 877

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months. The significant assumptions used by management in determining the impairment losses for loans to individuals is that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past twenty four months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance as at 31 December 2015 would increase/decrease by RUB 3 319 261 thousand (31 December 2014: RUB 3 613 886 thousand).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2015, impaired mortgage loans in the gross amount of RUB 2 813 106 thousand are secured by collateral with a fair value of RUB 2 065 408 thousand (31 December 2014: RUB 1 051 939 thousand and RUB 800 317 thousand, respectively).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2015 are as follows:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	120 461	305 563	618 437	6 765 307	7 809 768
Net charge	155 504	596 483	217 876	4 526 646	5 496 509
Net write-offs	(162 102)	-	(290 838)	(3 762 263)	(4 215 203)
Balance at the end of the period	113 863	902 046	545 475	7 529 690	9 091 074

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2014 are as follows:

RUB'000	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	111 366	186 329	309 052	3 858 981	4 465 728
Net charge	153 371	122 259	555 935	6 001 878	6 833 443
Net write-offs	(144 276)	(3 025)	(246 550)	(3 095 552)	(3 489 403)
Balance at the end of the period	120 461	305 563	618 437	6 765 307	7 809 768

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Loans to individuals	119 733 117	128 272 645
Oil and industrial chemicals	95 427 480	21 780 382
Food and farm products	63 578 011	24 130 079
Services	61 159 187	29 283 288
Financial	46 866 680	16 207 141
Automotive, motorcycles and spare parts	42 089 711	26 525 458
Metallurgical	39 150 165	20 644 628
Residential and commercial construction and development	38 573 473	32 896 516

	31 December 2015 RUB'000	31 December 2014 RUB'000
Property rental	30 297 150	11 878 567
Industrial and infrastructure construction	24 808 966	12 990 509
Pharmaceutical and medical products	12 742 011	8 456 534
Clothing, shoes, textiles and sporting goods	10 503 336	15 805 953
Consumer electronics, appliances and computers	10 325 576	14 531 414
Construction and decorative materials, furniture	10 017 245	6 082 450
Industrial equipment and machinery	6 098 559	9 189 011
Telecommunications	4 023 846	2 725 139
Paper, stationery and packaging products	2 916 325	2 052 741
Consumer chemicals, perfumes and hygiene products	2 689 256	1 904 249
Electric utility	2 002 940	1 686 105
Gardening and pet products	329 515	911 264
Books, video, print and copy	323 184	308 363
Products for home, gifts, jewelry and business accessories	184 218	344 065
Equipment leasing	32 812	1 310 709
Other	6 066 117	4 273 314
	629 938 880	394 190 524
Impairment allowance	(36 873 615)	(16 176 196)
	593 065 265	378 014 328

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Gross investment in finance lease	9 316 528	9 563 693
Unearned interest income	(1 951 150)	(1 927 568)
Net investment in finance lease before allowance	7 365 378	7 636 125
Impairment allowance	(244 660)	(162 527)
Net investment in finance lease	7 120 718	7 473 598

The contractual maturity of the net investment in leases is as follows:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Less than 1 year	3 204 365	3 721 210
Between 1 and 5 years	3 430 071	3 155 946
More than 5 years	5 682	174 246
Overdue	480 600	422 196
	7 120 718	7 473 598

Loan maturities

The maturity of the loan portfolio is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2015 is presented in the table below:

RUB'000	Land and buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2015	6 191 074	487 116	329 088	1 928 814	70 338	9 006 430
Acquisition of a subsidiary company	85 699	216 658	10 364	110 352	-	423 073
Additions	3 934	37 410	173 564	224 720	40 883	480 511
Disposals	-	(15 591)	(30 323)	(78 718)	-	(124 632)
Transfers	-	-	-	59 571	(59 571)	-
Revaluation	(657 112)	-	-	-	-	(657 112)
Elimination of accumulated depreciation on revalued buildings	(343 537)	-	-	-	-	(343 537)
At 31 December 2015	5 280 058	725 593	482 693	2 244 739	51 650	8 784 733
Accumulated depreciation						
At 1 January 2015	212 393	244 178	193 266	957 253	-	1 607 090
Depreciation charge	131 144	108 509	74 621	304 021	-	618 295
Disposals	-	(12 861)	(30 215)	(58 457)	-	(101 533)
Elimination of accumulated depreciation on revalued buildings	(343 537)	-	-	-	-	(343 537)
At 31 December 2015	-	339 826	237 672	1 202 817	-	1 780 315
Carrying value						
At 31 December 2015	5 280 058	385 767	245 021	1 041 922	51 650	7 004 418

The movement in property and equipment for the year ended 31 December 2014 is presented in the table below:

RUB'000	Land and buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount						
At 1 January 2014	4 770 815	457 241	260 798	1 656 076	106 403	7 251 333
Additions	1 420 259	57 504	82 985	298 742	21 278	1 880 768
Disposals	-	(27 629)	(14 695)	(78 380)	(4 967)	(125 671)
Transfers	-	-	-	52 376	(52 376)	-
At 31 December 2014	6 191 074	487 116	329 088	1 928 814	70 338	9 006 430
Accumulated depreciation						
At 1 January 2014	103 623	177 993	154 267	736 421	-	1 172 304
Depreciation charge	108 770	91 089	53 694	276 172	-	529 725
Disposals	-	(24 904)	(14 695)	(55 340)	-	(94 939)
At 31 December 2014	212 393	244 178	193 266	957 253	-	1 607 090
Carrying value						
At 31 December 2014	5 978 681	242 938	135 822	971 561	70 338	7 399 340

Revalued assets

The buildings were independently valued at 31 December 2015. The valuation was carried out by an independent firm of appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 10.8% to 12.0%;
- buildings maintenance and general administrative expenses are estimated in the range from 11.2% to 18.0% of effective gross rent income;
- capitalisation rate in the range from 11.0% to 12.0% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 10.5% to 12.0% implicit in advertized market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2015 would be RUB 528 006 thousand (31 December 2014: RUB 597 868 thousand) higher/lower.

The carrying value of land and buildings as of 31 December 2015, if the land and buildings would not have been revalued, would be RUB 4 117 568 thousand (31 December 2014: RUB 4 118 046 thousand).

15 Other assets

	31 December 2015 RUB`000	31 December 2014 RUB`000
Receivables under cession agreements	900 282	1 053 760
Receivables and settlements with suppliers	896 189	776 850
Receivables for commissions	777 340	674 303
Funds deposited in National Settlement Depository	-	1 029 650
Impairment allowance	(139 896)	(158 813)
Total other financial assets	2 433 915	3 375 750
Property held for further leasing	18 002 027	-
Real estate held for sale	3 804 815	3 712 809
Intangible assets	354 719	141 564
Deferred expenses	114 479	130 509
Other	895 887	569 047
Impairment allowance	(21 267)	(30 736)
Total other non-financial assets	23 150 660	4 523 193
Total other assets	25 584 575	7 898 943

To avoid losses on the documentary instruments the Bank entered into ownership of planes. These planes are included in property held for further leasing.

Included in real estate held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans in 2015 and 2014.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2015 and 31 December 2014 are as follows:

	2015 RUB'000	2014 RUB'000
Balance at the beginning of the period	189 549	102 445
Net charge	(889)	230 256
Write-offs	(27 497)	(143 152)
Balance at the end of the period	161 163	189 549

16 Deposits by the Central Bank of the Russian Federation

	31 December 2015 RUB'000	31 December 2014 RUB'000
Payables under repurchase agreements or collateralized loans	4 044 647	95 235
Term deposits	-	11 499 196
Total deposits by the Central Bank of the Russian Federation	4 044 647	11 594 431

Information about the currency and maturity and effective interest rates on deposits by the Central Bank of the Russian Federation is presented in note 29.

17 Deposits by credit and other financial institutions

	31 December 2015 RUB'000	31 December 2014 RUB'000
Term deposits	52 523 973	29 908 945
Payables under repurchase agreements or collateralized loans	22 602 592	-
Demand deposits	8 043 136	772 086
Subordinated debt	1 490 212	1 150 791
Syndicated loans	-	22 471 131
Total deposits by credit and other financial institutions	84 659 913	54 302 953

Payables under repurchase agreements or collateralized loans included in deposits by credit and other financial institutions are payables secured by highly liquid rated debt securities under agreement to sell (repo) that are included in the Lombard list of the Central Bank of the Russian Federation.

Subordinated debt represents loans denominated in USD with an effective interest rate of 7.0% (31 December 2014: 6.8%) and maturity in 2017 (31 December 2014: in 2017).

As at 31 December 2015, the Group has four counterparties (31 December 2014: no counterparties) whose deposits balances exceed 10% of deposits by credit and other financial institutions. The gross value of these balances as at 31 December 2015 is RUB 60 599 915 thousand (31 December 2014: nil).

Information about the currency and maturity and effective interest rates on deposits by credit and other financial institutions is presented in note 29.

18 Deposits by customers

	31 December 2015 RUB'000	31 December 2014 RUB'000
Corporate customers		
Term deposits	645 758 476	152 095 958
Current accounts and demand deposits	25 832 712	19 023 561
Subordinated debt	21 885 357	-
Term notes	4 286 679	332 709
Total corporate customers	697 763 224	171 452 228
Individuals		
Term deposits	189 047 958	152 613 630
Current accounts and demand deposits	11 881 049	10 786 340
Total individuals	200 929 007	163 399 970
Total deposits by customers	898 692 231	334 852 198

As at 31 December 2015, customer accounts include deposits amounting to RUB 4 992 040 thousand representing security for loans to customers (31 December 2014: nil).

As at 31 December 2015, the Group has two counterparties (31 December 2014: no counterparties), whose demand and term deposits exceed 10% of total customer accounts. The gross value of these balances as at 31 December 2015 is RUB 493 626 596 thousand (31 December 2014: nil).

Information about the currency and maturity and effective interest rates on deposits by customers is presented in note 29.

19 Debt securities issued

	31 December 2015 RUB'000	31 December 2014 RUB'000
Promissory notes issued at nominal value	1 059 000	5 025 999
Accrued interest	265	19 874
Unamortized discount	(14 706)	(79 913)
Total promissory notes issued	1 044 559	4 965 960
Subordinated bonds	46 208 552	36 952 827
Bonds	73 901 654	76 702 517
Total bonds issued	120 110 206	113 655 344
Total debt securities issued	121 154 765	118 621 304

The table below provides a summary of bonds issued as at 31 December 2015 and 31 December 2014:

	Nominal amount of the initial issue RUB'000/ USD'000	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate
		31 December 2015 RUB'000	31 December 2014 RUB'000			
RUB denominated bonds issue 07	2 000 000	-	2 031 324	20.07.2010	14.07.2015	9.30%
RUB denominated bonds issue 08	3 000 000	-	3 053 007	14.04.2010	08.04.2015	8.65%
RUB denominated subordinated bonds issue 11	3 000 000	3 020 864	3 018 900	11.12.2012	05.06.2018	12.25% *
RUB denominated bonds issue BO-02	3 000 000	-	3 013 996	25.09.2012	25.09.2015	8.85%
RUB denominated bonds issue BO-03	4 000 000	-	4 059 421	27.04.2012	27.04.2015	9.40%
RUB denominated bonds issue BO-06	3 666 245	3 722 125	5 061 010	24.10.2013	24.10.2018	12.25%
RUB denominated bonds issue BO-07	7 000 000	6 939 068	6 790 403	30.10.2013	30.10.2018	9.10%
RUB denominated subordinated bonds issue 12	2 000 000	2 085 240	2 084 580	27.02.2013	22.08.2018	12.25% *
USD denominated Eurobonds issue	500 000	37 565 990	27 377 848	01.02.2013	01.02.2018	7.70% *
USD denominated subordinated Eurobonds issue	500 000	36 049 080	28 380 937	13.05.2013	13.11.2018	8.70% *
RUB denominated bonds issue BO-09	3 000 000	3 100 049	-	25.03.2015	25.03.2020	15.00%
RUB denominated bonds issue BO-10	5 000 000	5 263 722	5 143 050	10.07.2014	10.07.2019	12.25%
RUB denominated bonds issue BO-11	15 000 000	15 038 290	15 507 162	10.07.2014	10.07.2019	10.90%
RUB denominated subordinated Eurobonds issue	5 000 000	5 053 367	5 050 530	26.11.2014	26.05.2025	16.50% *
Mortgage-backed bonds	3 702 139	2 272 411	3 083 176	11.06.2014	07.06.2039	10.65%
		120 110 206	113 655 344			

* *Fixed coupon rate*

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 December 2015 RUB'000	31 December 2014 RUB'000
Derivative financial instruments	782 834	229 696
Payables to suppliers	510 907	1 013 333
Cash collection payables	182 234	190 671
Other liabilities	218 179	134 359
Total other financial liabilities	1 694 154	1 568 059
Allowance for credit related commitments	1 397 344	513 043
Deferred income	871 772	526 683
Payable to employees	360 966	282 714
Taxes payable	228 063	211 073
Payables to Deposit Insurance Agency	189 554	152 625
Other liabilities	188 205	16 364
Total other non-financial liabilities	3 235 904	1 702 502
Total other liabilities	4 930 058	3 270 561

21 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital comprises 23 879 709 866 shares (31 December 2014: 14 467 761 735 shares) with par value of 1 RUB per share. In addition, at 31 December 2015 the Bank has 12 396 448 142 authorized but unissued ordinary shares with an aggregate nominal value of RUB 12 396 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 861 930 thousand.

In 2014 the Bank commenced its share capital increase by placement of 1 272 264 631 additional ordinary shares with a par value of 1 RUB per share. The new shares were acquired, at a price above par value by the current majority shareholder Concern Rossium, LLC for RUB 5 000 million through a placement of a RUB 5 000 million subordinated loan in the Bank in December 2014 that was subsequently used for purchase of shares upon completion of their registration. The Bank and the majority shareholder entered into a contractual arrangement that established the unconditional right for the Bank to repay the subordinated debt by issuance of fixed number of additional ordinary shares to the majority shareholder. As such, this amount was presented as equity in the consolidated financial statements as at 31 December 2014. As at 31 December 2014 the share issue was in the process of registration. In February 2015 the CBR registered the Bank's share capital increase in the amount of RUB 5 000 million.

In June 2015 the Bank issued 3 639 683 500 additional ordinary shares with a par value of 1 RUB per share under an initial public offering. The Bank raised RUB 13 175 654 thousand during the offering.

In December 2015 the Bank issued 4 500 000 000 additional ordinary shares with a par value of 1 RUB per share under a secondary public offering. The Bank raised RUB 16 515 000 thousand during the offering.

22 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2015 RUB'000	31 December 2014 RUB'000
Guarantees and letters of credit	65 895 955	67 723 944
Undrawn loan commitments	6 449 869	6 312 891
Other contingent liabilities	137 258	326 790
	72 483 082	74 363 625

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Less than 1 year	887 475	532 510
Between 1 and 5 years	1 000 944	851 308
More than 5 years	32 120	38 538
	1 920 539	1 422 356

During the year ended 31 December 2015 RUB 816 209 thousand was recognised as an expense in profit or loss in respect of operating leases (31 December 2014: RUB 944 099 thousand).

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognized in the consolidated statement of financial position.

26 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015		31 December 2014	
	Amount RUB'000	Average effective interest rate	Amount RUB'000	Average effective interest rate
Loans to customers				
Under control of majority shareholder	991 190	17.4%	518 437	16.7%
Management	114 800	16.4%	22 478	14.9%
Total loans	1 105 990		540 915	

	31 December 2015		31 December 2014	
	Amount RUB'000	Average effective interest rate	Amount RUB'000	Average effective interest rate
Deposits by customers				
Under control of majority shareholder	476 883	10.8%	62 405	8.4%
Majority shareholder	282 531	13.2%	268 073	4.0%
Management	199 585	7.8%	156 043	8.6%
Parent company	56 024	10.0%	24 366	7.8%
Total deposits	1 015 023		510 887	
Guarantees issued				
Under control of majority shareholder	4 287 052		-	
Total guarantees	4 287 052		-	

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2015 and 2014 in relation to transactions with related parties are as follows:

	2015 RUB'000	2014 RUB'000
Interest income on loans to customers		
Majority shareholder	193 411	737
Under control of majority shareholder	118 208	80 280
Management	9 355	7 404
Total interest income	320 974	88 421
Interest expense on deposits by customers		
Parent company	76 808	13 608
Majority shareholder	24 998	67 163
Under control of majority shareholder	23 053	1 450
Management	15 069	10 113
Total interest expense	139 928	92 334

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2015 and 31 December 2014 (refer to note 6) is as follows:

	2015 RUB'000	2014 RUB'000
Members of the Supervisory Board	74 995	52 569
Members of the Management Board	86 631	228 035
	161 626	280 604

27 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. The Group calculates the amount of capital in accordance with Provision of the CBR dated 28 December 2012 No 395-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III)* (Provision of the CBR No 395-P).

As at 31 December 2015 minimum level of main capital ratio (ratio N20.2) is 6.0%, basic capital ratio (ratio N20.1) is 5.0%, own funds (capital) ratio (ratio N20.0) is 10% (31 December 2014: 5.5%, 5.0%, 10.0%, respectively).

Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR offices that supervise the Bank with information on mandatory ratios in accordance with regulatory requirements. The accounting department controls on a daily basis compliance with capital adequacy ratios.

In case capital adequacy ratios become close to limits set by the CBR and the Group's internal limits this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2015 and 31 December 2014.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS financial statements as at 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	59 789 103	25 098 449
Shares in the process of issue	-	5 000 000
Retained earnings	31 560 113	30 050 642
Goodwill	-	(301 089)
Intangible assets	(354 719)	(141 564)
Core tier 1	90 994 497	59 706 438
Additional capital	-	-
Total tier 1 capital	90 994 497	59 706 438
Tier 2 capital		
Revaluation surplus for buildings	769 176	1 115 928
Revaluation reserve for investments available-for-sale	220 070	(1 277 529)
Subordinated loans		
Subordinated loans	42 291 275	360 054
Subordinated bonds	28 277 204	30 433 890
Total tier 2 capital	71 557 725	30 632 343
Total capital	162 552 222	90 338 781
Risk-weighted assets		
Banking book	749 365 459	459 721 138
Trading book	179 465 196	67 317 145
Operational risk	57 449 960	43 073 457
Total risk weighted assets	986 280 615	570 111 740
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	16.5	15.8
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)	9.2	10.5
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	9.2	10.5

Included in subordinated bonds in tier 2 capital are subordinated bonds in the amount of RUB 23 398 755 thousand (31 December 2014: RUB 27 553 890 thousand) which are fully in compliance with Basel III requirements as adopted in the Russian Federation. Other subordinated loans are subject to accelerated amortization, following the transition rules applied by the CBR for inclusion in tier 2 capital of subordinated loans received before March 2013.

In June 2015 the State Corporation “Deposit Insurance Agency” provided a subordinated loan of RUB 20 231 000 thousand to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction. The Group does not recognize securities received and a subordinated obligation to return them to the lender in the consolidated statement of financial position of the Group. The obligation to return securities received to the State Corporation “Deposit Insurance Agency” is subordinated to other ordinary obligations of the Group, and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its Tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III and Basel I requirements.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Tier 1 capital		
Share capital and additional paid-in capital	59 789 103	25 098 449
Shares in the process of issue	-	5 000 000
Retained earnings	31 560 113	30 050 642
Goodwill	-	(301 089)
Total tier 1 capital	91 349 216	59 848 002
Tier 2 capital		
Revaluation surplus for buildings	769 176	1 115 928
Revaluation reserve for investments available-for-sale	220 070	(1 277 529)
Subordinated loans		
Subordinated loans	42 407 888	450 067
Subordinated bonds	29 340 130	31 431 944
Total tier 2 capital	72 737 264	31 720 410
Total capital	164 086 480	91 568 412
Risk-weighted assets		
Banking book	749 365 459	459 721 138
Trading book	179 465 196	67 317 145
Total risk weighted assets	928 830 655	527 038 283
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	17.7	17.4
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	9.8	11.4

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with Basel I established by covenants in borrowing agreements. The Group complied with all externally imposed capital requirements as at 31 December 2015 and 31 December 2014.

28 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guarantees, corporate deposit taking, settlements and money transfers, currency conversion
- Retail banking: comprises retail demand and term deposit services; retail lending, including other loans to individuals, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers, currency conversion for individuals
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations: comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

	31 December 2015 RUB'000	31 December 2014 RUB'000
ASSETS		
Corporate banking	487 032 141	259 263 051
Retail banking	111 969 235	122 111 347
Treasury	557 505 468	174 024 442
Cash operations	17 344 885	12 529 291
Unallocated assets	34 348 899	16 910 861
Total assets	1 208 200 628	584 838 992

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	31 December 2015 RUB'000	31 December 2014 RUB'000
LIABILITIES		
Corporate banking	697 763 224	171 452 227
Retail banking	200 929 007	163 399 970
Treasury	209 859 325	184 518 688
Unallocated liabilities	7 310 610	5 480 617
Total liabilities	1 115 862 166	524 851 502

Segment information for the main reportable segments for the year ended 31 December 2015 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	48 791 721	21 501 052	18 917 737	-	-	89 210 510
Fee and commission income	2 447 074	4 274 211	178 092	2 469 733	-	9 369 110
Net gain on securities	-	-	800 663	-	-	800 663
Net foreign exchange gain	1 889 144	192 235	661 399	-	-	2 742 778
Revenue (expenses) from other segments	1 826 444	(976 371)	(933 718)	83 645	-	-
Revenue	54 954 383	24 991 127	19 624 173	2 553 378	-	102 123 061
Impairment losses on loans	(20 539 441)	(5 496 509)	-	-	-	(26 035 950)
Interest expense	(24 116 299)	(20 078 998)	(15 726 739)	-	-	(59 922 036)
Fee and commission expense	(1 437 475)	(183 726)	(96 567)	-	-	(1 717 768)
Other operating loss, net	(779 015)	115 762	113 892	-	-	(549 361)
General administrative and other expenses	(3 226 947)	(4 232 072)	(203 869)	(498 112)	(3 792 402)	(11 953 402)
Expense	(50 099 177)	(29 875 543)	(15 913 283)	(498 112)	(3 792 402)	(100 178 517)
Segment result	4 855 206	(4 884 416)	3 710 890	2 055 266	(3 792 402)	1 944 544

Segment information for the main reportable segments for the year ended 31 December 2014 is set below:

RUB'000	Corporate banking	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	31 024 907	19 790 988	7 367 490	-	-	58 183 385
Fee and commission income	3 563 701	3 716 875	154 869	1 591 770	-	9 027 215
Net loss on securities	-	-	(2 298 408)	-	-	(2 298 408)
Net foreign exchange losses	(887 260)	(283 382)	(1 315 076)	-	-	(2 485 718)
Other operating income, net	(24 013)	264 993	227 238	-	-	468 218
(Expenses) revenue from other segments	(11 741 327)	2 380 160	9 161 392	199 775	-	-
Revenue	21 936 008	25 869 634	13 297 505	1 791 545	-	62 894 692
Impairment losses on loans	(4 811 710)	(6 833 443)	-	-	-	(11 645 153)
Interest expense	(9 497 168)	(11 654 297)	(11 149 418)	-	-	(32 300 883)
Fee and commission expense	(1 523 084)	(180 925)	(31 341)	(958)	-	(1 736 309)
General administrative and other expenses	(1 333 094)	(4 232 638)	(156 990)	(1 442 738)	(3 029 348)	(10 194 809)
Expense	(17 165 057)	(22 901 303)	(11 337 750)	(1 443 696)	(3 029 348)	(55 877 154)
Segment result	4 770 951	2 968 331	1 959 756	347 849	(3 029 348)	7 017 538

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation.

There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations. The majority of non-current assets are located in the Russian Federation.

29 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an open joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2015, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Andrew S. Gazitua
- Roman I. Avdeev
- Andrey A. Kryukov
- Vladimir A. Chubar
- Mikhail E. Kuznetsov
- Nicholas D. Haag
- Thomas G. Grasse
- Bernard D. Sucher
- Alexey A. Stepanenko.

During the year ended 31 December 2015 the following changes occurred in the composition of the Supervisory Board:

- Alexander N. Nikolashin - resigned
- Andrey A. Kryukov – new member.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2015, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Dmitry A. Eremin – First Deputy Chairman of the Management Board
- Yury A. Ubeev – Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Daria A. Galkina – Deputy Chairman of the Management Board
- Svetlana V. Sass – Chief Accountant, Member of the Management Board.

During the year ended 31 December 2015 no changes occurred in composition of the Management Board.

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documenting of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulation of the Central Bank of Russian Federation dated 16 December 2003 No 242-P *On the Organisation of Internal Control in Credit Organisations and Banking Groups* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures

- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organization (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the credit organization's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the internal control service and the risk management service.

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of internal control (compliance) service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by internal audit service. The internal audit function is independent from management and reports directly to the Supervisory Board. The results of internal audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including Federal Law dated 2 December 1990 No 395-1 *On Banks and Banking Activity*, Direction of the CBR dated 1 April 2014 No 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation*, establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the internal audit and control function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognized and unrecognized exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail loan credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk in relation to assets recognized at 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015	31 December 2014
	RUB'000	RUB'000
ASSETS		
Cash and cash equivalents	120 669 701	106 167 630
Obligatory reserves with the Central Bank of the Russian Federation	5 936 111	3 360 070
Due from credit and other financial institutions	277 295 869	6 880 576
Financial instruments at fair value through profit or loss	72 136 989	49 864 611
Available-for-sale securities	87 291 642	11 111 570
Loans to customers	593 065 265	378 014 328
Other financial assets	2 433 915	3 375 750
Total maximum exposure to credit risk on statement of financial position	1 158 829 492	558 774 535

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates the Bank's credit risk in respect of a borrower or a group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2015 and 31 December 2014, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2015 and 31 December 2014.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or a group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of Direction of the CBR dated 25 October 2013 No. 3090-U *Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2015 and 31 December 2014.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements.

Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities RUB'000	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase	289 550 623	-	289 550 623	289 550 623	-	-
Total financial assets	289 550 623	-	289 550 623	289 550 623	-	-
Sale and repurchase	26 647 239	-	26 647 239	26 647 239	-	-
Total financial liabilities	26 647 239	-	26 647 239	26 647 239	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities RUB'000	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position RUB'000	Net amount of financial assets/liabilities presented in the consolidated statement of financial position RUB'000	Related amounts subject to offset under specific conditions		
				Financial instruments RUB'000	Cash collateral received RUB'000	Net amount RUB'000
Reverse sale and repurchase	19 383 683	-	19 383 683	19 383 683	-	-
Total financial assets	19 383 683	-	19 383 683	19 383 683	-	-
Sale and repurchase	95 235	-	95 235	95 235	-	-
Total financial liabilities	95 235	-	95 235	95 235	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortized cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2015.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial assets/liabilities not in the scope of offsetting disclosure RUB'000	Note
Reverse sale and repurchase	50 735 211	Cash and cash equivalents	138 014 586	87 279 375	9
agreements	238 815 412	Due from credit and other financial institutions	277 295 869	38 480 457	10
Sale and repurchase	4 044 647	Deposits by the Central Bank of the Russian Federation	4 044 647	-	16
agreements	22 602 592	Deposits by credit and other financial institutions	84 659 913	62 057 321	17

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2014.

Types of financial assets/liabilities	Net amount RUB'000	Line item in the consolidated statement of financial position RUB'000	Carrying amount in the consolidated statement of financial position RUB'000	Financial assets/liabilities not in the scope of offsetting disclosure RUB'000	Note
Reverse sale and repurchase	14 785 302	Cash and cash equivalents	118 696 921	103 911 619	9
agreements	4 598 381	Due from credit and other financial institutions	6 880 576	2 282 195	10
Sale and repurchase	95 235	Deposits by the Central Bank of the Russian Federation	11 594 431	11 499 196	16
agreements					

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorized transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognized principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of Internal Control Division on important developments and issues. The Head of Internal Control Division reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are:

- i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Group was in compliance with these ratios as at 31 December 2015 and 31 December 2014.

The following tables as at 31 December 2015 and 31 December 2014 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Bonds issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

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31 December 2015 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by the CBR	-	4 061 566	-	-	4 061 566	4 044 647
Deposits by credit and other financial institutions	29 969 117	44 331 293	3 931 759	8 159 293	86 391 462	84 659 913
Deposits by customers	139 780 249	322 114 330	385 766 303	86 563 741	934 224 623	898 692 231
Debt securities issued	6 647 413	8 613 235	17 139 405	118 065 559	150 465 612	121 154 765
Other financial liabilities	1 329 314	264 641	91 277	8 922	1 694 154	1 694 154
Total contractual future payments for financial obligations	177 726 093	379 385 065	406 928 744	212 797 515	1 176 837 417	1 110 245 710
Guarantees and letters of credit	65 895 955	-	-	-	65 895 955	
Credit related commitments	6 449 869	-	-	-	6 449 869	
<hr/>						
31 December 2014 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by the CBR	5 219 450	6 487 655	96 965	-	11 804 070	11 594 431
Deposits by credit and other financial institutions	7 938 559	31 751 202	7 159 674	9 180 940	56 030 375	54 302 953
Deposits by customers	111 410 664	104 727 101	68 452 686	74 065 848	358 656 299	334 852 198
Debt securities issued	2 552 445	13 499 922	19 570 101	109 910 990	145 533 458	118 621 304
Other financial liabilities	512 156	590 679	465 224	-	1 568 059	1 568 059
Total contractual future payments for financial obligations	127 633 274	157 056 559	95 744 650	193 157 778	573 592 261	520 938 945
Guarantees and letters of credit	67 723 944	-	-	-	67 723 944	
Credit related commitments	6 312 891	-	-	-	6 312 891	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Demand and less than 1 month	26 596 672	8 146 506
From 1 to 6 months	107 909 005	59 995 356
From 6 to 12 months	37 204 483	30 759 951
More than 1 year	17 337 798	53 711 817
	189 047 958	152 613 630

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2015 and 31 December 2014 is shown in the tables below:

31 December 2015 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Bonds issued	15 038 290	3 100 049	12 202 791	82 443 298	5 053 367	2 272 411	120 110 206

31 December 2014 RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Bonds issued	-	7 112 428	10 105 773	6 790 403	81 512 476	8 134 264	113 655 344

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

As at 31 December 2015 and 2014 the contractual maturities of all instruments included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

31 December 2015 RUB'000	Less than month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Financial instruments at fair value through profit or loss	2 757 203	30 519 203	19 300 715	17 093 588	1 295 746	1 170 534	-	72 136 989
Available-for-sale securities	66 538	9 308 366	17 016 804	54 241 816	3 817 855	2 840 263	111 267	87 402 909

31 December 2014 RUB'000	Less than month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Financial instruments at fair value through profit or loss	1 477 498	11 376 681	17 829 788	13 315 217	5 306 671	558 756	-	49 864 611
Available-for-sale securities	104 868	464 984	3 355 503	3 503 524	3 304 900	377 791	55	11 111 625

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31 December 2015 RUB'000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	138 014 586	-	-	-	-	-	-	-	-	-	-	138 014 586
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	5 936 111	-	5 936 111
Due from credit and other financial institutions	-	70 956 455	101 342 473	5 272 120	1 416 268	98 308 553	-	-	-	-	-	277 295 869
Financial instruments at fair value through profit or loss	61 997 153	2 864 799	3 876 735	184 555	1 196 705	528 642	1 488 400	-	-	-	-	72 136 989
Available-for-sale securities	60 107 726	2 115 753	5 066 642	7 061 565	7 670 898	258 658	4 847 710	36 453	126 237	111 267	-	87 402 909
Loans to customers	71 062 052	89 688 271	63 333 598	48 036 367	37 625 142	38 711 193	57 222 511	77 652 412	84 070 793	-	25 662 926	593 065 265
Property and equipment	-	-	-	-	-	-	-	-	-	7 004 418	-	7 004 418
Current tax asset	-	-	-	-	-	-	-	-	-	1 759 906	-	1 759 906
Other assets	716 103	590 784	1 082 870	642 105	236 377	131 052	65 526	-	-	22 119 758	-	25 584 575
	331 897 620	166 216 062	174 702 318	61 196 712	48 145 390	137 938 098	63 624 147	77 688 865	84 197 030	36 931 460	25 662 926	1 208 200 628
LIABILITIES												
Deposits by the CBR	-	4 044 647	-	-	-	-	-	-	-	-	-	4 044 647
Deposits by credit and other financial institutions	29 889 828	2 000 736	42 042 747	3 266 642	595 522	3 542 951	723 814	1 146 699	1 450 974	-	-	84 659 913
Deposits by customers	139 132 835	203 651 279	111 245 333	252 569 174	122 668 329	31 874 538	11 145 095	468 449	25 937 199	-	-	898 692 231
Debt securities issued	-	1 044 559	-	-	-	-	89 382 368	23 402 061	7 325 777	-	-	121 154 765
Income tax liability	-	-	-	-	-	-	-	-	-	2 380 552	-	2 380 552
Other liabilities	1 671 314	641 734	242 944	202 876	195 829	41 258	56 993	64 848	53 951	1 758 311	-	4 930 058
	170 693 977	211 382 955	153 531 024	256 038 692	123 459 680	35 458 747	101 308 270	25 082 057	34 767 901	4 138 863	-	1 115 862 166
Net position	161 203 643	(45 166 893)	21 171 294	(194 841 980)	(75 314 290)	102 479 351	(37 684 123)	52 606 808	49 429 129	32 792 597	25 662 926	92 338 462
Cumulative position	161 203 643	116 036 750	137 208 044	(57 633 936)	(132 948 226)	(30 468 875)	(68 152 998)	(15 546 190)	33 882 939	66 675 536	92 338 462	

Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions.

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31 December 2014 RUB'000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	118 696 921	-	-	-	-	-	-	-	-	-	-	118 696 921
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	3 360 070	-	3 360 070
Due from credit and other financial institutions	1 145 728	5 734 848	-	-	-	-	-	-	-	-	-	6 880 576
Financial instruments at fair value through profit or loss	43 595 418	-	2 762 742	-	1 512 042	503 535	-	1 490 874	-	-	-	49 864 611
Available-for-sale securities	9 804 644	51 923	35 760	313 150	-	760 512	-	63 634	81 947	55	-	11 111 625
Loans to customers	22 725 911	61 782 830	36 896 767	22 575 440	24 931 404	55 085 438	38 367 556	58 690 448	50 459 492	-	6 499 042	378 014 328
Property and equipment	-	-	-	-	-	-	-	-	-	7 399 340	-	7 399 340
Current tax asset	-	-	-	-	-	-	-	-	-	1 311 489	-	1 311 489
Goodwill	-	-	-	-	-	-	-	-	-	301 089	-	301 089
Other assets	1 737 050	316 894	1 014 823	612 997	294 350	85 500	448	-	-	3 836 881	-	7 898 943
	197 705 672	67 886 495	40 710 092	23 501 587	26 737 796	56 434 985	38 368 004	60 244 956	50 541 439	16 208 924	6 499 042	584 838 992
LIABILITIES												
Deposits by the CBR	5 182 534	4 662 899	1 653 763	-	95 235	-	-	-	-	-	-	11 594 431
Deposits by credit and other financial institutions	7 930 108	27 859 288	3 744 917	5 722 025	1 216 375	2 787 002	3 332 260	784 412	926 566	-	-	54 302 953
Deposits by customers	110 934 205	68 535 075	32 432 520	35 147 077	27 854 352	14 802 607	37 019 766	8 126 596	-	-	-	334 852 198
Debt securities issued	2 246 173	1 768 795	8 063 419	5 044 763	-	-	-	93 363 890	8 134 264	-	-	118 621 304
Income tax liability	-	-	-	-	-	-	-	-	-	2 210 055	-	2 210 055
Other liabilities	801 841	561 087	350 054	343 792	344 766	23 695	16 604	24 713	25 211	778 798	-	3 270 561
	127 094 861	103 387 144	46 244 673	46 257 657	29 510 728	17 613 304	40 368 630	102 299 611	9 086 041	2 988 853	-	524 851 502
Net position	70 610 811	(35 500 649)	(5 534 581)	(22 756 070)	(2 772 932)	38 821 681	(2 000 626)	(42 054 655)	41 455 398	13 220 071	6 499 042	59 987 490
Cumulative position	70 610 811	35 110 162	29 575 581	6 819 511	4 046 579	42 868 260	40 867 634	(1 187 021)	40 268 377	53 488 448	59 987 490	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarizes the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

RUB'000	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2015						
Interest-bearing assets	147 306 327	365 148 366	128 667 417	442 361 375	25 662 926	1 109 146 411
Interest-bearing liabilities	138 270 323	367 129 350	391 302 458	166 058 795	-	1 062 760 926
Net interest sensitivity gap as at 31 December 2015	9 036 004	(1 980 984)	(262 635 041)	276 302 580	25 662 926	46 385 485
31 December 2014						
Interest-bearing assets	95 372 382	116 256 110	68 692 135	232 329 863	6 499 042	519 149 532
Interest-bearing liabilities	95 667 791	148 720 676	80 140 838	164 229 392	-	488 758 697
Net interest sensitivity gap as at 31 December 2014	(295 409)	(32 464 566)	(11 448 703)	68 100 471	6 499 042	30 390 835

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2015 and 31 December 2014 is as follows:

	2015		2014	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
200 bp parallel rise	951 996	951 996	(578 763)	(578 763)
200 bp parallel fall	(951 996)	(951 996)	578 763	578 763

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2015		2014	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
200 bp parallel rise	(860 099)	(3 027 271)	(885 452)	(1 215 950)
200 bp parallel fall	860 099	3 027 271	885 452	1 215 950

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2015 and 31 December 2014 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2015		2014	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
20% appreciation of USD against RUB	(2 275 867)	(2 275 867)	(104 804)	(104 804)
20% depreciation of USD against RUB	2 275 867	2 275 867	104 804	104 804

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2015			2014		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	3.3%	12.7%	6.5%	2.2%	17.2%	4.9%
Due from credit and other financial institutions	3.5%	12.9%	2.2%	-	15.3%	6.4%
Financial instruments at fair value through profit or loss						
– government and municipal bonds	-	11.7%	-	-	13.7%	-
– corporate bonds	3.9%	12.1%	-	11.3%	18.0%	-
Available-for-sale securities						
– corporate bonds	6.1%	10.2%	-	15.5%	19.1%	-
– promissory notes	4.7%	-	-	-	9.8%	-
Loans to customers	6.8%	16.6%	8.5%	10.1%	17.8%	9.7%
Interest bearing liabilities						
Deposits by the CBR	1.7%	-	-	2.1%	10.3%	-
Deposits by credit and other financial institutions						
– term deposits	4.1%	10.2%	1.5%	1.8%	12.2%	2.1%
– syndicated loans	-	-	-	2.2%	-	1.9%
– subordinated debt	7.0%	-	-	6.8%	-	-
Term deposits by customers						
– term deposits	2.4%	11.4%	4.1%	4.6%	14.9%	5.4%
– subordinated debt	4.9%	-	-	-	-	-
Debt securities issued	8.2%	11.9%	-	8.2%	10.7%	-

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

31 December 2015 RUB'000	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	59 727 312	72 654 368	5 632 906	138 014 586
Obligatory reserves with the CBR	-	5 936 111	-	5 936 111
Due from credit and other financial institutions	209 513 317	14 053 586	53 728 966	277 295 869
Financial instruments at fair value through profit or loss	2 711 998	69 335 105	89 886	72 136 989
Available-for-sale securities	79 312 931	8 089 978	-	87 402 909
Loans to customers	182 817 944	394 026 650	16 220 671	593 065 265

CREDIT BANK OF MOSCOW (open joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
for the year ended 31 December 2015

31 December 2015				
RUB'000	USD	RUB	Other currencies	Total
Property and equipment	-	7 004 418	-	7 004 418
Current tax asset	-	1 759 906	-	1 759 906
Other assets	18 144 937	7 426 240	13 398	25 584 575
	552 228 439	580 286 362	75 685 827	1 208 200 628
LIABILITIES				
Deposits by the CBR	4 044 647	-	-	4 044 647
Deposits by credit and other financial institutions	12 210 910	29 503 369	42 945 634	84 659 913
Deposits by customers	461 502 072	419 521 369	17 668 790	898 692 231
Debt securities issued	73 615 070	47 539 695	-	121 154 765
Income tax liability	-	2 380 552	-	2 380 552
Other liabilities	803 913	3 937 483	188 662	4 930 058
	552 176 612	502 882 468	60 803 086	1 115 862 166
Net position before hedging	51 827	77 403 894	14 882 741	92 338 462
Derivative financial instruments	(14 275 993)	29 973 084	(15 697 091)	-
Net position	(14 224 166)	107 376 978	(814 350)	92 338 462
31 December 2014				
RUB'000	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	41 451 810	66 576 897	10 668 214	118 696 921
Obligatory reserves with the CBR	-	3 360 070	-	3 360 070
Due from credit and other financial institutions	-	5 832 109	1 048 467	6 880 576
Financial instruments at fair value through profit or loss	977 039	48 214 550	673 022	49 864 611
Available-for-sale securities	7 891 691	3 219 934	-	11 111 625
Loans to customers	78 156 198	293 000 004	6 858 126	378 014 328
Property and equipment	-	7 399 340	-	7 399 340
Goodwill	-	301 089	-	301 089
Current tax asset	-	1 311 489	-	1 311 489
Other assets	149 215	7 731 014	18 714	7 898 943
	128 625 953	436 946 496	19 266 543	584 838 992
LIABILITIES				
Deposits by the CBR	95 235	11 499 196	-	11 594 431
Deposits by credit and other financial institutions	40 952 764	7 797 466	5 552 723	54 302 953
Deposits by customers	37 635 265	283 532 572	13 684 361	334 852 198
Debt securities issued	55 758 785	62 862 519	-	118 621 304
Income tax liability	-	2 210 055	-	2 210 055
Other liabilities	330 314	2 861 808	78 439	3 270 561
	134 772 363	370 763 616	19 315 523	524 851 502
Net position before hedging	(6 146 410)	66 182 880	(48 980)	59 987 490
Derivative financial instruments	5 491 384	(5 446 284)	(45 100)	-
Net position	(655 026)	60 736 596	(94 080)	59 987 490

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2015 and 31 December 2014 is disclosed in the table below:

31 December 2015 RUB'000	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	85 762 363	30 269 539	21 982 684	138 014 586
Obligatory reserves with the CBR	5 936 111	-	-	5 936 111
Due from credit and other financial institutions	258 580 188	-	18 715 681	277 295 869
Financial instruments at fair value through profit or loss	68 839 281	567 534	2 730 174	72 136 989
Available-for-sale securities	15 898 183	70 484 368	1 020 358	87 402 909
Loans to customers	489 337 845	33 306 856	70 420 564	593 065 265
	924 353 971	134 628 297	114 869 461	1 173 851 729
LIABILITIES				
Deposits by the CBR	4 044 647	-	-	4 044 647
Deposits by credit and other financial institutions	73 444 089	11 153 444	62 380	84 659 913
Deposits by customers	895 003 621	118 782	3 569 828	898 692 231
Debt securities issued	42 486 328	78 668 437	-	121 154 765
	1 014 978 685	89 940 663	3 632 208	1 108 551 556
Net position	(90 624 714)	44 687 634	111 237 253	65 300 173
31 December 2014 RUB'000	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	75 603 830	30 075 851	13 017 240	118 696 921
Obligatory reserves with the CBR	3 360 070	-	-	3 360 070
Due from credit and other financial institutions	4 591 209	-	2 289 367	6 880 576
Financial instruments at fair value through profit or loss	48 035 786	1 128 178	700 647	49 864 611
Available-for-sale securities	991 506	10 120 119	-	11 111 625
Loans to customers	355 501 263	11 091 144	11 421 921	378 014 328
	488 083 664	52 415 292	27 429 175	567 928 131
LIABILITIES				
Deposits by the CBR	11 594 431	-	-	11 594 431
Deposits by credit and other financial institutions	19 836 114	34 432 588	34 251	54 302 953
Deposits by customers	333 873 149	128 224	850 825	334 852 198
Debt securities issued	57 811 990	60 809 314	-	118 621 304
	423 115 684	95 370 126	885 076	519 370 886
Net position	64 967 980	(42 954 834)	26 544 099	48 557 245

The majority of non-financial assets and liabilities is located in Russia.

30 Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

RUB'000	Financial assets at fair value through profit or loss	Financial assets available for sale
2015		
Carrying amount of assets	2 654 432	2 115 753
Carrying amount of associated liabilities	1 978 085	2 066 562
2014		
Carrying amount of assets	138 501	-
Carrying amount of associated liabilities	95 235	-

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group.

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognized them. These securities are presented as “pledged under sale and repurchase agreements” in notes 11 and 12. The cash received is recognized as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central Bank of Russian Federation (note 16). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

RUB'000	Held for trading	Loans and receivables	Available- for-sale	Other amortised	Total carrying	Fair value
Cash and cash equivalents	-	138 014 586	-	-	138 014 586	138 014 586
Obligatory reserves with the CBR	-	5 936 111	-	-	5 936 111	5 936 111
Due from credit and other financial institutions	-	277 295 869	-	-	277 295 869	277 295 869
Financial instruments at fair value through profit or loss	72 136 989	-	-	-	72 136 989	72 136 989
Available-for-sale financial assets	-	-	87 402 909	-	87 402 909	87 402 909
Loans to customers	-	593 065 265	-	-	593 065 265	598 244 308
Other financial assets	-	2 433 915	-	-	2 433 915	2 433 915
	72 136 989	1 016 745 746	87 402 909	-	1 176 285 644	1 181 464 687

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised	Total carrying	Fair value
Deposits by the CBR	-	-	-	4 044 647	4 044 647	4 044 647
Deposits by credit and other financial institutions	-	-	-	84 659 913	84 659 913	84 659 913
Deposits by customers	-	-	-	898 692 231	898 692 231	912 243 118
Debt securities issued	-	-	-	121 154 765	121 154 765	119 441 817
Other financial liabilities	782 834	-	-	911 320	1 694 154	1 694 154
	782 834	-	-	1 109 462 876	1 110 245 710	1 122 083 649

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2015 are:

- discount rates from 12.1 to 15.5% (roubles) and from 4.5% to 10.8% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.3% to 23.0% (roubles) and from 10.4% to 19.0% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 8.0% to 12.0% (roubles) and from 1.3% to 3.0% (foreign currency) are used for discounting future cash flows from retail deposits;
- discount rates from 9.5% to 12.0% (roubles) and from 2.0% to 4.9% (foreign currency) are used for discounting future cash flows from corporate deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2014:

RUB'000	Held for trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	118 696 921	-	-	118 696 921	118 696 921
Obligatory reserves with the CBR	-	3 360 070	-	-	3 360 070	3 360 070
Due from credit and other financial institutions	-	6 880 576	-	-	6 880 576	6 880 576
Financial instruments at fair value through profit or loss	49 864 611	-	-	-	49 864 611	49 864 611
Available-for-sale financial assets	-	-	11 111 625	-	11 111 625	11 111 625
Loans to customers	-	378 014 328	-	-	378 014 328	371 724 419
Other financial assets	-	3 375 750	-	-	3 375 750	3 375 750
	49 864 611	510 327 645	11 111 625	-	571 303 881	565 013 972
Deposits by the CBR	-	-	-	11 594 431	11 594 431	11 594 431
Deposits by credit and other financial institutions	-	-	-	54 302 953	54 302 953	54 302 953
Deposits by customers	-	-	-	334 852 198	334 852 198	326 611 827
Debt securities issued	-	-	-	118 621 304	118 621 304	93 113 981
Other financial liabilities	229 696	-	-	1 338 363	1 568 059	1 568 059
	229 696	-	-	520 709 249	520 938 945	487 191 251

The main assumptions used by management to estimate the fair values of financial instruments as 31 December 2014 are:

- discount rates from 18.3 to 22.1% (roubles) and from 5.4% to 11.1% (foreign currency) are used

for discounting future cash flows from corporate loans;

- discount rates from 14.7% to 22.5% (roubles) and from 6.2% to 20.0% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 16.9% to 28.7% (roubles) and from 7.2% to 8.0% (foreign currency) are used for discounting future cash flows from retail deposits;
- discount rates from 9.0% to 18.9% (roubles) and from 1.0% to 5.4% (foreign currency) are used for discounting future cash flows from corporate deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates.

The Group uses widely recognized valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortized cost for which amortized cost does not approximate their carrying amount as at 31 December 2015 and 31 December 2014:

31 December 2015	Level 1 RUB'000	Level 2 RUB'000	Level 3 RUB'000	Valuation technique used for Level 2 and 3	Total RUB'000
Financial assets at fair value through profit or loss	71 210 799	926 190	-	Discounted cash flows	72 136 989
Available-for-sale securities	74 338 170	13 064 739	-	Discounted cash flows	87 402 909
Loans to customers	-	-	598 244 308	Discounted cash flows	598 244 308
Deposits by customers	-	912 243 118	-	Discounted cash flows	912 243 118
Debt securities issued	118 397 258	1 044 559	-	Discounted cash flows	119 441 817
31 December 2014	Level 1 RUB'000	Level 2 RUB'000	Level 3 RUB'000	Valuation technique used for Level 2 and 3	Total RUB'000
Financial assets at fair value through profit or loss	48 849 224	1 015 387	-	Discounted cash flows	49 864 611
Available-for-sale securities	10 919 021	192 604	-	Discounted cash flows	11 111 625
Loans to customers	-	-	371 724 419	Discounted cash flows	371 724 419
Deposits by customers	-	326 611 827	-	Discounted cash flows	326 611 827
Debt securities issued	88 148 021	4 965 960	-	Discounted cash flows	93 113 981

During 2015 and 2014 there were no transfers of assets between Level 1 and Level 2.

32 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	31 December 2015 RUB'000	31 December 2014 RUB'000
Profit for the period	1 509 471	5 569 333
Weighted average number of ordinary shares in issue	17 430 172 429	14 467 761 735
Basic and diluted earnings per share in RUB (per share)	0.09	0.38

33 Acquisitions and disposals

Acquisition of subsidiary

On 13 November 2015 the Group acquired 100% shares in NKO "INKAKHRAN" (JSC), a company operating in cash handling services. The purchase consideration was RUB 1 061 000 thousand, which was settled in cash.

Taking control of NKO "INKAKHRAN" (JSC) will enable the Group to reinforce its position in the market of cash handling services.

The fair value amounts of assets and liabilities of the acquired subsidiary recognized in the Group's consolidated financial statements were as follows at the date of acquisition:

RUB'000	Recognized amounts on acquisition
ASSETS	
Cash and cash equivalents	3 637 481
Mandatory balances with CBR	16 488
Current tax asset	68 584
Property and equipment	423 073
Deferred tax asset	61 959
Other assets	451 553
LIABILITIES	
Deposits and balances from banks and other financial institutions	3 032 218
Current accounts and deposits from customers	241 219
Other liabilities	324 701
Net identifiable assets and liabilities	1 061 000
Consideration paid	1 061 000
Cash acquired	3 637 481
Net cash inflow	2 576 481

The amounts of revenue and profit or loss of NKO "INKAKHRAN" (JSC) since the acquisition date and for the year ended 31 December 2015 as though the acquisition had been as of the beginning of the reporting year do not have a significant effect on consolidated revenue and profit or loss.

34 Events subsequent to the reporting date

In January 2016 the Bank paid out the third coupon in the amount of RUB 308.75 million or RUB 61.75 per bond on domestic bonds series BO-10. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In January 2016 the Bank paid out the third coupon on the amount RUB 824.25 million or RUB 54.95 per bond on domestic bonds series BO-11. The issue was originally placed on 10 July 2014 in the amount of RUB 5 billion with maturity of 5 years and additional issue on 24 December 2014 in the amount of RUB 10 billion.

In February 2016 the Bank paid out the sixth coupon in the amount of RUB 122.16 million or RUB 61.08 per bond on domestic bonds series 12. The issue was originally placed on 27 February 2013 in the amount of RUB 2 billion with a maturity of 5.5 years.

In February 2016 Anton O. Virichev, Head of the Risk Management Directorate, was appointed a Member of the Management Board.

Chairman of the Management Board

Acting Chief Accountant

28 March 2016



Vladimir A. Chubar

Ekaterina V. Toloka

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